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ABSTRACT

The objective of this research project is to search for the theoretical linkage between CSP and CFP and to provide empirical evidence for these. Hence, using a 2005-2011 panel dataset from Fortune World’s Most Admired Companies, the author investigates how and why CSP influences CFP. The first study analyses the determinants of CFP measured by ROE, focusing particularly on the CSP/board independence interaction and the CSP/executive incentive interaction. These interactive terms have positive and significant effects on ROE, holding other factors fixed. In particular, there is an increasing trend in the magnitude of these effects among the less profitable firms, and the strongest effect is seen in loss-making firms. The study confirms the utility of agency theory while confirming stakeholder theory only conditionally on these interactions. After defining CSR costs, the second study tests and confirms the theory of market information asymmetry. When other factors are controlled, salary and stock both positively affect executives to disclose CSP, which enhances businesses’ CSR ratings. Further, a composite measure of CSP disclosure and CSR rating is significantly correlated with either dividend or firm value. The third study provides an original conceptual model of four layers of costs under corporate governance mechanism, within which the author tests and confirms the theory of transaction costs in terms of the relationship between CSP and CFP mediated by governance disclosure. The framework and the empirical findings enable the generalisation that CSP has positive effects on CFP conditionally with the mediation of a well-informed and good governance.