A RESOURCE BASED PERSPECTIVE ON THE LINK BETWEEN CORPORATE SOCIAL RESPONSIBILITY, REPUTATIONAL CAPITAL AND ORGANIZATIONAL PERFORMANCE

Faria Arshad ¹ and Tasneem Fatima ²

Abstract

Corporate social responsibility is a widely discussed and very current research arena in the business world. The present study examines the effect of CSR on organizational performance from a resource based perspective. It elaborates how socially responsible organizations can achieve financial gains for the company by generating intangible resources. The data was collected from 524 middle management employees of manufacturing sector organizations through questionnaires. The data was analyzed through Structure Equation Modeling. The results demonstrate that CSR is positively related to Organizational performance and reputational capital. The major contribution of the study was to determine the mediating role of reputational capital which was also found significant for the dependent variable. Implications of research shows how CSR practices can be beneficial for the organizations and how by actively pursuing the CSR strategy can enhance corporate reputations among all stakeholders which can lead to enhanced corporate performance.

Keywords: Corporate Social Responsibility, Organizational Performance, Reputational Capital, Corporate Performance

JEL Classification: Z 000

Introduction

The rationale of profit maximization and economic motives have always been the priority for business enterprise. The question of legitimacy of a business enterprise has recently been challenged by the literature where it does not restrict itself to economic outcomes of organizations but also the social and environmental impact of business on society (Elanor, 2013).

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Lately, there had been paradoxical viewpoints on the issue of business responsibility. The neo-economists have claimed that over investing in CSR will ultimately reduce the ability of a company to exploit resources for future growth and will clash with profit maximization by increasing the cost and also by generating conflict of interest among the stakeholders (Freidman, 1970). While the upcoming research in CSR, based upon the resource based view and stakeholders perspective, many researchers present that such investment in CSR can trigger a better relationship between stakeholders and company that can boost the economics of a business by mobilization of resources (Russo & Perini, 2010).

In the wake of global concerns of industrial pollution, environmental damages and business power, the concern of sustainability has taken a significant place in academia and industry which has led the organizations to a multi stakeholder perspective (Baken, 2006). Further, the dynamism of business as an open system requires a balance of resource in and out of the firm to maintain its operations.

There have been continuous researches and developments on the topic since its emergence where majority of the research has focused upon creating profit justification of involving into CSR. wo main schools of thought emerged into the field; one the proponents of this theory who establish reasons to involve into CSR activities, the other who counter argues to state the profit maximization as the only rationale of business. The recent shift in paradigm of CSR have shown other benefits of CSR activities. The CSR related literature is linked to different operations of the organizations such as Marketing, (Vaaland et.al., 2008; Sanclemente, 2017) Human Resource Management (Jamali et.al., 2014) and Strategic Management (Mc Williams, 2006; Baumgartner et.al., 2014).

CSR has been widely practiced in many countries across the globe. Dominantly the research, development, techniques and practices have emerged from west particularly in USA, Australia and Europe (Belal, 2000). However, in developing nations, businesses are reluctantly taking this practice into account but the focus of CSR initiatives is more efficiency centered and market focused (Patrick et al., 2014). In Pakistan, CSR is just in its infancy and the activities focus more upon compliance or philanthropic contributions. In the context of a developing nation, characterized by high uncertainty and environmental turbulence, investing in CSR can bring potential intangible benefits to the organizations. The social context of CSR in Pakistan provides a fertile ground for organizations to adopt CSR as regular business practices due to the collectivist culture as well as the religious orientation. The religious and social context of Pakistan provides a catalytic basis for the notion of CSR. As stated by Williams & Zinkin, (2010), development in Islam refers to fulfillment of the material needs of both individuals and society as well as individual and social behavior of people to maintain self-fulfillment and social justice. Similarly, Islamic values promote the concept of CSR by the idea of brotherhood and justice to balance employee rights and better coherence between self-interest and altruism (Durani, 2016).
Although CSR is a discretionary business practice, but as the need of the time, it seems to become more obligatory for larger businesses operating in the country. This can have a good impact on the resource development in terms of both human and physical resources in Pakistan.

The definitional realm of CSR is manifold. Some of the aspects are related to quality control and regulations while other talk about stabilizing the community welfare, climate and ecosystems. Nevertheless, both of these dominant notions have to consider economic growth and profit maximization as fundamental. However a broad but reasonable perspective was presented at World business council for sustainable development which defines “corporate social responsibility is the continuous commitment of business to behave ethically and to contribute to economic development while improving the quality of life of the workforce and their families and as of local communities at their large” (WBCSD, 2007).

By far, the most recognized definition of CSR is perhaps presented by Carroll (1990), which defines CSR in four dimensions. According to Carroll a corporation does not merely require meeting its economic concerns but also should behave legally, ethically and contribute to the society voluntarily.

By and large, the External CSR had been more into focus of Social Responsibility research that includes two major themes; one the environment and second community service. Nevertheless, the literature lack its focus upon the internal dimension of CSR as well as how the two dimensions can be related. Here a comprehensive notion of CSR is taken into account to build a reproduction of CSR practices for generating strategically usable organizational resources.

Nowadays, there is a shift in how companies and academician understand corporate social responsibility. While initial construct has sheer emphasis on ecological and community welfare, the recent developments find that responsibility towards worker's well being in the organization encompassing his career, health and safety is equally considerable (Faisal, 2010). Thus, current literature in CSR relates to employees as primary stakeholders as beneficiary of CSR activities (Nasruddin & Ali, 2010) in four main facets. This includes; organizations principles for treating the employees on equitable basis by showing equal opportunity to the talented and promoting diversity, the organizations agenda for employees training needs for identifying and developing the talent, organization's intent to deal employees on humanitarian grounds and taking care of their health and safety at the work and to optimally utilize the resources by minimizing environmental damage.

Many recent researches should multiple ideas for CSR policies and practices that organizations can adopt under various circumstances (Porter and Kramer, 2006; Googins. Mirvis & Rochlin, 2007). According to Lantos (2001), Other than the fundamental rationale of altruism, there are ethical and strategic reasons to adopt CSR practices to enhance one's competitive position.
Corporate Performance

Corporate social responsibility is a widely discussed and very current research arena in the business world. The term "corporate social responsibility" (CSR) has become a popular buzzword in recent years. CSR refers to the responsibility of an organization to contribute to the wellbeing of society and the environment. This concept has gained significant attention in the business world in recent years. CSR is the only rationale of business. The recent shift in paradigm of CSR have shown other benefits of business as an open system requires a balance of resource in and out of the firm to maintain its operations and manage the stakeholder relationships and by creating a strong identification between stakeholders and the firm. It conceptually defines stakeholder organizations principles for treating the employees on its economic concerns but also should behave legally, ethically and contribute to the society voluntarily.

Stakeholder Perspective

Stakeholder theory has gained significant attention after the publication of Edward Freeman’s ‘Strategic Management: A Stakeholder Approach’ (1984). He argues that business relationships should include all those people who affect or are affected by the business activity. Few researchers have integrated stakeholder theory with corporate governance perspective and agency perspective (Hill & Jones, 1992).

Stakeholder theory is the most widely used foundation for developing a business case of the firm. It conceptually defines stakeholder relationships in ethical and organizational management terms. Stakeholder theory suggests that the purpose of a business is to create value for stakeholders. In order to succeed and be sustainable over time, executives must keep the interests of customers, suppliers, employees, communities and shareholders aligned and going in the same direction. According to Carroll, 1991, there is a natural fit between the idea of corporate social responsibility and an organization’s stakeholders. The concept of stakeholder personalizes social or societal responsibilities by delineating the specific groups or persons business should consider in its CSR orientation.”

Wood (1991) suggests that CSR maybe differently perceived by the business and its stakeholders and similarly they assess corporate social performance in a different way. This is challenging for managers to balance the ideological positions of stakeholders. With the changing external environment of organizations, the paradigm of stakeholder relationships is also shifting from transactional to a more relational approach which certainly has an impact on value creation and profit maximization. (Post, Preston & Sache, 2002). Stakeholder theory presents a moral orientation of business and describes stakeholders as allies to the corporation. So CSR has a reciprocal relationship towards its stakeholders (Solomon, 1994). Lizarzburu (2014), suggested that stakeholders’ perceptions can be a determinant of companies’ reputation which can be maintained through CSR policies. Thus, by managing the stakeholder relationships and by creating a strong identification between stakeholders and corporation, companies can manage their reputations (Arikan, Guner, 2013).

Resource Based Perspective

Resource based view was first developed by Wernerfelt (1984) and extended by Barney (1991). According to Barney corporation is a bundle of heterogeneous resources that a firm specifically holds. Such resources are immobile and this immobility of resources is a competitive advantage for the firm. Resources that are valuable, inimitable, rare and un-substitutable can provide organizations an edge over the competing business in the industry. Generally, the resources which fulfill these criteria are intangible resources such as good will, reputation, distribution channels, technical knowledge (Wernerfelt, 1984). When competing businesses can’t deploy equivalent resources a sustainable advantage is created for the firm with better resources. These resources can be acquired historically.
such as organizational culture. Complexity is also a feature which can bring uniqueness to the organizational resources. Such complex resources can be created by a dynamic and coordinated action of a large number of people and such resources exhibit as stakeholder relationships within the organizations.

Many researchers identify CSR activities as a valuable strategic resource such as corporate differentiation (Hillman & Keim, 2001), corporate reputation (Barney, 1991), environmental responsibility programs (Hart, 1995). According to Bartlett (2009) all CSR activities should generate a resource for the firm that is a source of competitive advantage.

Relating the Resource Based View and stakeholder perspective, we can say that companies depend upon their stakeholders to obtain necessary resources for their survival and development.

Perceived Organizational Performance

Perceived organizational performance is an important and very common measure determined by many researchers. It refers to the effectiveness and performance of an organization as appraised by the members of that organizations that increases the coherence and bonding of employees with company. Such measure of performance can impact the business through different means such as development of a strong relationship network with stakeholders and other organizations. The study of Yet & Anson (1993) presents important findings about working relationship of employees and organizational performance.

Perceived Organizational performance had been of profound interest to researchers in Human Resource Management. The literature reveals organizational performance as an outcome of employee relations, people’s attitudes and behaviors, work family arrangements, ethical and moral concerns of employees and the value systems (Terry & Jill, 2001).

CSR and Perceived Organizational Performance

In the historical context of CSR research, financial performance is the most common and significant focus of the research encompassing both the perceived and firm's financial performance. A little literature support is also available on the relationship of CSR and perceived financial performance.

According to our rationalization and the precedent research on CSR, it creates an image of the organization in stakeholder's mind that ultimately fabricate the perceptions of organizational performance. Considering the case of such reputations perceived organizational performance is a mirror reflection of corporate reputations created in stakeholder's mind about corporate social performance.
The ideology of CSR persuade organizations to investigate the environmental and social interactions of a business along with its economic interaction to the community (Stephen & Alfred, 2011).

**H1:** There exist a positive relationship between Internal CSR and perceived organizational performance

**Reputational Capital**

Many scholars define corporate reputation as an intangible and very fragile resource to the organization (Goldberg et al., 2003). According to Elsbach and Glynn (1996) firms cultivate three types of reputations: toughness, high quality and distinction. Fombrun (1993) defines corporate reputation in terms of four interrelated characteristics including, trustworthiness, credibility, reliability & responsibility. He further states it as an economic asset to the organization which has long term investment value and relates to firm’s financial soundness (Fombrun 2001). Strategy scholars define it as a resource of the firm which is an outcome of the competitive process (Mahon, 2002).

Fundamentally, reputations are developed by stakeholder expectations from companies. Organizations characterized with higher employee retention rates and High performance work systems demonstrate positive reputations and vice versa. Thus, organizations' good reputations can increase the talent pool of an organization (Hamori 2003). Similarly, reputable companies can attract the investors more easily. Hence it can be considered a determinant of human capital because reputable organizations have very selective hiring procedures and demand high performing workforce.

According to Petrick et al. (1993), reputations are gained by trusting employees through good management practices and responsible behaviors, thus organizations gain credibility among many of its stakeholders which uplifts the social and moral status of an organization by position and organization as a responsible corporate citizen.

**CSR and Reputational Capital**

Many scholars have recognized corporate social responsibility as a matter that influence corporate reputations (Brammer & Pavelin, 2004); (Lodgson & Wood, 2002), (Mahon & Watrick, 2003). Siltajoja (2006), presents the same link through the value theory. An alignment between individual’s value priority and value placed in company’s CSR action can build favorable reputation in the minds of stakeholders. Value priorities form the basis of CSR actions and are a criterion to evaluate the appropriateness of these action for similarly affecting the reputations of the company. The CSR-reputation relationship is also significant from morality perspective. If the ethical behavior is the CSR bottom line, this will define the term responsibility dominantly.
Existing research reveals that social responsiveness can play a significant role in promoting good relationships with primary stakeholder groups upon whom the survival of organization primarily depends (Clarkson, 1995). Further to this Hillman & Keim (2001) propose that effective stakeholder management can create intangible and socially complex resources that may enhance firm’s ability to increase long term value creation. Brammer & Millington (2007), suggests that philanthropic expenditures may play a significant role in stakeholder management and leads positive impressions.

Dowling (2002) gives a model of corporate reputation building which considers the importance of employees in developing the corporate image into a corporate asset. Reputations, seeing from a multi stakeholder perspective are the collective observation of many stakeholders of the company. Such as a good value repute by customers, opportunities of collaboration from business partners and legitimacy from community perspective (Fombrun & Riel, 1999). According to them companies can build a safety net from a corporate citizenship perspective encompassing all the stakeholders. H2: There is a positive relationship between Internal CSR and Reputational capital.

Reputational capital and Firm Performance

According to Fombrun & Riel (2004), the accumulation of perceptual and social assets which is developed by the stakeholder relationships and corporate positioning of a company establishes the reputational capital. Shapiro (1983), argues that favorable reputation based upon quality can provide a flow of profits which compensate the cost incurred in building that reputation. Similarly, it marks a cost of entry to maintain its customers and serves as an immunity to any unintended damages. According to Carmeli & Tishler (2005), Organizational performance is an outcome of perceived good will created by corporate actions.

According to Barney, firm resources can be any, such as competencies, capabilities, skills, reputations assets or any other object. The integration of these resources can formulate a unique pattern of a resource such as reputations which can be very industry or firm specific and can prove to be an exceptional advantage for the firms.

Coff (1999), argues that the essence of RBV lies in how it connects a firm’s profitability to its unique pool of resources. The firm can choose to build these resources either internally or acquire through external environment, whereas the latter can be more costly and imitable. In short, reputations are a key resource for organizations that add value in business in tough competition. The current research is structured to find out how socially responsible companies develop their reputations which can benefit by serving as a competitive resource which qualifies the criteria of uniqueness and inimitability as suggested by RBV.

H3a: There is a positive relationship between reputational capital and organizational performance

H3b: Reputational capital mediates the relationship between Internal CSR practices and perceived organizational performance.
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enhance the competitive stature of the organization.
Table 1
<table>
<thead>
<tr>
<th>Sr. no.</th>
<th>Variables</th>
<th>Codes</th>
<th>Instrument authors</th>
<th>No. of Items</th>
<th>Previous Reliability</th>
<th>Measurement Scale</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Internal CSR</td>
<td>ICSR</td>
<td>Duygu Tuker 2006</td>
<td>8</td>
<td>0.90</td>
<td>1 = SA, 5=SD</td>
<td>0.84</td>
</tr>
<tr>
<td>2</td>
<td>Reputational Capital</td>
<td>RCAP</td>
<td>Shwaiger 2004</td>
<td>19</td>
<td>0.84</td>
<td>1 = SA, 5=SD</td>
<td>0.87</td>
</tr>
<tr>
<td>3</td>
<td>Perceived Organizational Performance</td>
<td>POP</td>
<td>Delany &amp; Heuslied 2001</td>
<td>6</td>
<td>0.85</td>
<td>1 = SA, 5=SD</td>
<td>0.84</td>
</tr>
</tbody>
</table>
Data Analysis

Structured equation modeling (SEM) is used to analyze the data. A three step approach is used for data modeling, i.e. Common Factor Analysis to establish latent variable numbers, Confirmatory Factor Analysis for confirmation of measurement model & Structural model. This is followed by an overall estimation fit of measurement and structural model by using indices such as Goodness of Fit Index (GFI), Adjusted goodness of fit (AGFI), Comparative Fit Index(CFI) and Root Mean Square Error of Estimation (RMSEA).

Correlations

Significant correlations are found between all variables. The correlation between ICSR and RCAP shows a value of 0.60 where p>0.01. This shows ICSR to be more considerably related to RCAP.

In case of correlation between RCAP and POP the coefficient value of 0.61 is shown. The relationship between RCAP and POP shows the most significant values that shows that a strong positive relationship exist between RCAP & POP. Therefore, we can interpret that the more positive perceptions about CSR held by employees will lead to better reputations and Perceived organizational performance subsequently.

Table 2

<table>
<thead>
<tr>
<th></th>
<th>MICSR</th>
<th>MRCAP</th>
<th>MPOP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MICSR</strong></td>
<td>Pearson Correlation</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>524</td>
<td></td>
</tr>
<tr>
<td><strong>MRCAP</strong></td>
<td>Pearson Correlation</td>
<td>.601(**)</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>524</td>
<td>524</td>
</tr>
<tr>
<td><strong>MPOP</strong></td>
<td>Pearson Correlation</td>
<td>.581(**)</td>
<td>.616(**)</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>524</td>
<td>524</td>
</tr>
</tbody>
</table>

p<0.01
CFA: Measurement Model

Structural Model

The model fit for these variable was found to be satisfactory. The structural model was estimated that depicts reasonable values of fitness on the five indices such as CMIN/DF = 3.20; GFI = 0.90; AGFI = 0.80; CFI = 0.91; RMSEA = .065. Therefore, no critical misfit issues are found in the structural model. The AGFI and RMSEA values provide a good fit of variables. The results suggest that employee's perceptions of corporate social responsibility reflect into organization's profitability through creation of reputational capital and thus lead to competitive advantage. The following table presents a summary of findings.

Table 3
Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>CMIN/DF</th>
<th>RMR</th>
<th>GFI</th>
<th>AGFI</th>
<th>CFI</th>
<th>RMSEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICSR</td>
<td>4.51</td>
<td>.04</td>
<td>.94</td>
<td>.89</td>
<td>.93</td>
<td>.09</td>
</tr>
<tr>
<td>RCAP</td>
<td>3.70</td>
<td>.04</td>
<td>.88</td>
<td>.84</td>
<td>.85</td>
<td>.08</td>
</tr>
<tr>
<td>POP</td>
<td>4.42</td>
<td>.03</td>
<td>.97</td>
<td>.93</td>
<td>.97</td>
<td>.09</td>
</tr>
</tbody>
</table>

Table 4
Summary of Findings for Mediation

<table>
<thead>
<tr>
<th>Path</th>
<th>Total Effect</th>
<th>Direct Effect</th>
<th>Indirect Effect</th>
<th>Confidence Interval</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICSR----RCAP----POP</td>
<td>0.66(0.040)</td>
<td>0.25(0.046)</td>
<td>0.40(0.041)</td>
<td>LL 0.32 UL 0.49</td>
</tr>
</tbody>
</table>

(Standard Error in Parentheses)

As estimated in the research model corporate social responsibility is found to have a significant and direct effect on the perceived organizational performance. This correspond to several of the previous researches in CSR such as (Stephen & Alfred, 2000; Freeman 2002). Internal CSR practices were found to be both directly and indirectly related to perceived organizational performance. Krasuz (1996), also found that social CSR and performance are positively linked using the market based measures, which is also emphasized by Orlitzky et al. (2003).
Many researchers from various countries also verify a positive and significant relationship between CSR and FP to firm's advantage. Earlier research on the effects of CSR on financial performance mostly focused on the manufactured industry (Kang et al., 2010) and found a positive result as in the current study.

There exist a significant positive relationship between ICSR and RCAP. ICSR takes into account company's responsible practices towards employees who are one of the primary and directly affected stakeholders of a firm and can create good/bad word of mouth for the organization. As a stakeholder the employee's relationship with company is manifold as they are part of the company in which they work and part of the community in which company is working. They act as general, consumer and employee stakeholders. According to the social identity perspective, employees identify themselves with the company and their individual experiences can shape the reputations of a company. The underlying reason for the significance of internal CSR practices could be that people form their judgments as part of the direct experience the gain from the company. It is deduced that company cannot create value through CSR outside the organization until it creates such value first inside the organization. Karagiorgos (2011) also suggested that a positive relation of CSR towards firm financial performance indicates that companies could increase their external reputation. It is inferred that stakeholders build up multiple expectations from the company and if met by the company by keeping up their commitments and providing a sound experience with the company can enhance corporate reputations.

**Conclusion**

Overall our results provide some important insights into the dynamics and implications of Corporate Social Responsibility. While most extant literature emphasizes the link between profitability and CSR, the results of this study emphasize the need to determine the content of this linkage and also adds a perspective to create resources such as reputational capital from CSR practices that can enhance the competitive stature of the organization.

The results and discussion confirms the relationship between CSR and reputational capital and the firm performance through the stakeholder and resource based perspective. From the results it can be seen that creation of reputational capital is important to determine the firm's profitability. The study brings about the significance of the strategic use of CSR. The relationship presented between variables in this study manifest that the interpersonal relationships between different stakeholder groups and management, firm's can create a complex and dynamic social exchange process that can become an underpinning resource for organization's sustainability and long term profits. This confirms the earlier propositions of CSR and its linkage to firm profitability (Kathleen, Schuler, 2013).
Although the study provides evidence for the hypothesis proposed yet it can be enriched in future. Reputations are built over a period of time and can be broken easily. The current study is cross sectional and has taken reputations at one point of time. Further, longitudinal studies may determine some useful insight into the mediation suggested. The study took data from employees of middle management, a wider scope of the same is possible if data is gathered from multiple stakeholders. Future studies should be conducted to find out how CSR can become an imperative part of organizational structure and processes.

References


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