Impact of corporate social responsibility intensity on corporate reputation and financial performance of Indian firms

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Abstract

The rising importance of CSR over the last few decades has stirred the interest of academia and corporate on the subject. CSR attracted attention in the Indian context with the implementation of the Companies Bill, 2013, which mandated firms to invest 2 per cent of their net profits in social activities. The linkages between CSR and profitability using factors such as corporate reputation, competition intensity, and advertising have been tested in the developed countries. These linkages have sparsely been tested in emerging economies such as India, which motivated me to conduct this study. Neville et al. (2005) proposed a theoretical model integrating stakeholders, and internal and external factors influencing the CSR-FP relationship. This study modified and used Neville’s et al. (2005) model to test the proposed linkage in the Indian context. Structural Equation Modeling revealed a significant relationship between CSR Intensity and corporate reputation; significant role of social initiative and corporate strategy fit in enhancing the corporate reputation of a firm; and a significant role of advertising and promotion in enhancing corporate reputation. Other variables such as competitive intensity, supplier power, customer power and employee power were found to have no significant role on the proposed relationships.

Keywords

CSR intensity, corporate reputation, firm performance, stakeholder

JEL Classification

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Introduction

Liberalization and globalization, presence of MNCs in Asian markets, rising consumer expectations from businesses, and emergence of pressure groups have augmented the cause of CSR in the Asian sub-continent. Responding to social pressure is important for a firm as it can directly affect its market value by pushing away investors from the firm or indirectly by harming the reputation or brand equity of the firm. Firms may be encouraged to perform socially responsible activities to ward off negative attention from NGOs (Baron 2009). Moreover, Indian consumers have become increasingly aware of the wider social role of business in the society (Mishra and Suar 2010). Consequently, Indian companies have started focusing on CSR activities to build trust amongst their significant stakeholders (Mishra and Suar 2010; Carroll and Shabana 2010). CSR is instrumental for a firm to gain public appreciation; to make up for perceived wrong doings of an industry; and/or manage their reputation. The Companies Bill, 2013, India, which aimed at bringing the management of the corporate sector in line with global norms, directed companies to invest in social and ethical causes. Given this statutory requirement, companies need to invest in CSR activities that have an impact on firm performance and ensure that the CSR expenditure undertaken on their part is beneficial to them in the long run. This study accordingly addresses the CSR-FP link in the Indian context. Neville et al. (2005: 1190) proposed a theoretical model integrating stakeholders, internal factors (Reputation Management Capability; Social Initiative and Corporate Strategy Fit) and external factors (Stakeholder Power; Competitive Intensity) that affect the link between CSR and FP. The model also envisaged the moderating role of stakeholders in the CSR-FP relationship. This study intended to test the validity of the model in the Indian context. The postulates provided by Neville et al. (2005) consider stakeholders in its entirety which is an erroneous approach. Given the presence of several different groups of stakeholders (Freeman 1984: 25) with their varying significance to a firm, they need to be analyzed separately. Previous research (Rose and Thomsen 2004)
identified employees, customers and suppliers as major stakeholders who are likely to significantly influence the performance of a firm, due to their ability to control critical resources of the firm. Therefore, this study endeavors to analyze Neville’s model in the Indian context focusing on customers, suppliers and employees, who significantly affect the performance of a firm.

1. Theoretical background and hypotheses development

1.1. Corporate social responsibility (CSR)
A socially responsible firm runs business profitably, simultaneously accounting for the effects (positive and negative, environmental, social and economic) it has on society. Rowe (2006) believed CSR to be more than philanthropy while Moir (2001: 17) opined that CSR advocates considering issues such as marketplace (customers, suppliers), employees, community and environment. CSR should be viewed as a strategic step which aids in generating opportunities, innovation and in creating competitive advantage (Porter and Kramer 2006). In the Indian context, scope and intensity of CSR activities is determined by the combined effect of social pressure (i.e. government, NGOs and social activists) (Baron et al. 2011) and leads to improved performance (Story and Neves 2015; Jitaree et al. 2014). CSR Intensity (Lins et al. 2015) refers to the extent to which a firm uses its current year’s profits in CSR activities in the following year.

1.2. Corporate reputation (CR)
Corporate Reputation is “a collective representation of a company’s past actions and future prospects that describes how key resource providers interpret a company’s initiatives and assess its ability to deliver valued outcomes” (Fombrun 1996: 293). According to Lai et al. (2010: 458), CR is “the overall impression reflecting the perception of a collective stakeholder group”. In a nutshell, CR comprises of a holistic assessment of the organization’s image formed by stakeholder’s personal views (Whetten and Mackey 2002). CR is affected by financial soundness, quality of management, and CSR (Leiva et al. 2014). Firms can hence make an effort to influence their reputation by going for corporate social reporting (Pérez 2015).

1.3. Financial performance (FP)
FP has been broadly measured using market-based, accounting-based and perception based measures (Orlitzky et al. 2003). Literature provides as many as 80 performance measures (Griffin and Mahon 1997) on CSR- FP relationship. The measures vary according to the objective of the study. There are different measures for operational profits, accounting profits and market efficiency. Generally, the most frequently used FP measures are firm size, asset age, return on equity capital, return on assets (ROA), PB Ratio, ROCE and return on sales. This study used measures of operating profits (Return on capital employed (ROCE)), accounting profits (Net Profit (NP)) and market measures (Price to Book ratio (P/B)).

1.4. CSR Intensity and corporate reputation
CSR activities have influence on the firm’s marketing efforts such as corporate communication, branding and reputation building. Zadek et al. (1997) opined that CR involves the perceptions about an organization that result from the information conveyed through interpersonal communication and advertising. Good reputation acts as a competitive advantage giving firms the ability to attract investors easily, gain access to capital markets, charge premium prices and have improved credit ratings (Fombrun 1996). CR refers to stakeholders’ evaluation of the credibility of a firm’s projection (Neville et al. 2005). CSR activities have an influence on CR through marketing efforts of a firm such as corporate communications, reputation building, and branding. It involves the perceptions about an organization that result from the information conveyed through mass media and interpersonal communication (Dowling 1986). Therefore, we hypothesize that: H1: CSR intensity has a positive impact on corporate reputation.

1.5. Corporate reputation and firm performance
A positive reputation provides an organization with competitive advantage and enables it to charge higher prices for its products and services (Fombrun 1996). Black and Khanna (2007) established that organizations use resources to enhance reputation, expecting that they will enhance performance. Positive reputation affects supplier’s choice (Weiss et al. 1999) leading to assured supply of better quality inputs ultimately resulting in higher profits (Roberts and Dowling 2002). Little, P. and Little, B. (2000) revealed that highly reputed firms have higher P/E ratios due to their CSR activities. CR represents a competitive advantage that cannot be replicated and can lead to superior performance by attracting investors (Fombrun 1996). Additionally, CR helps a firm in demanding premium prices for the products and services of the company; cheaper raw materials; attracting more qualified employees; greater consumer/employee loyalty and stable income. Therefore, we hypothesize that: H2: Corporate reputation has a positive impact on a firm’s financial performance.

1.6. Social initiative/corporate strategy fit and the CSR-FP relationship
Literature suggests the existence of a relationship between CSR and FP (Orlitzky et al. 2003). Husted (1999) suggested that CSR- performance relationship is an outcome of the fit between the nature of social issues and corresponding responses and strategies by the firm. Firms doing social activities that are inconsistent with its corporate strategy do not meet its stakeholders’ expectations. The stakeholder theory believes that an organization’s CSR activities are assessed according to the standards
the stakeholders believe in (Wartick 2002). Invariably, products, markets and activities defining organizational strategy also define the firm’s stakeholder set. Firms make profits by representing their socially responsible elements in their products (Berman et al. 1999). Hence, we hypothesize that: H5a: The fit between social initiatives and corporate strategy plays a moderating role between CSR intensity and corporate reputation.

1.7. Competitive Intensity and the CR-FP Relationship
Intensity of competition is a crucial theory in the field of strategic management as it can affect the performance of a firm. CI has been defined as the “degree of competition among co-operating partners” (Ramaswamy 2001: 990) in a market. Generally, CI of an industry is judged by the number of players existing players within the industry i.e. market structure. CI determines the outcome of a firm on another firm’s survival, as firms within an industry compete in a diverse manner based on their available resources (Ang 2008). Sen and Bhattacharya (2001) opined that when firms undertake CSR activities, consumers tend to like, respect, admire the firm, identify with it and consequently act as its brand ambassadors. Thus, the greater (or lesser) the level of competition in a sector, CR is more likely to play a more (or less) important role in the resource allocation decisions by stakeholders and, ultimately the performance of the firm. Hence, we hypothesize that: H4: Competitive intensity moderates the relationship between corporate reputation and a firm’s financial performance.

1.8. Reputation management capability (RMC) and the CSR-FP relationship
The CSR-CR-FP linkage is subject to an organization’s efforts to influence the role of CR in the link. It is therefore implied that CR can and should be managed (Weiss et al. 1999). Capability to manage reputation affects the extent to which CSR is converted into reputation (Wong et al. 2015). Organizations may influence stakeholder expectations through effective corporate communications (viz. advertising) and ensuring that the organization’s behavior is reflected in its reputation (Roberts and Dowling 2002). Firms not satisfied with their reputations can consequently endeavor to monitor and enhance it; while other firms with a satisfactory reputation may focus on sustaining as well as enhancing their reputation. Therefore, reputation management capability of a firm can be proactive as well defensive (Shimp 1997). Proactive reputation management refers to organizational actions that enhance perceptions of a firm’s stakeholders towards its performance. Defensive reputation management on the other hand deals with minimizing prior negative image/reputation of a firm through effective corporate communication (Bromley 2000). Hence, we hypothesize that: H5a: Reputation management capability of a firm moderates the relationship between CSR and corporate reputation; H5b: Reputation management capability of a firm moderates the relationship between corporate reputation and financial performance.

1.9. Stakeholder power and the CSR-FP relationship
Originally the term “stakeholder” was defined as “the groups without whose support the organization would cease to exist” (Freeman 1984: 25). The organization as such comprises of many activities and in every stage has many stakeholders. Stakeholders possessing power have the ability to enforce their wishes despite opposition (Weber 1947). Studies have revealed that suppliers, customers, and employees are important stakeholders of a firm (Neville et al. 2005). Enhanced stakeholder relations improve the company’s reputation and FP (Mishra and Suar 2010). Some stakeholders tend to affect FP more than others and so, their ability to influence the organization should be structured using stakeholder power concept (Mitchell et al. 1997). Supplier Power (SP): Good relations with suppliers help reap the benefits of superior offerings and responsiveness (Sisodia et al. 2007). Profitable firms consider suppliers to be true partners and promote suppliers to join forces with them in sustainable business (Sisodia et al. 2007). Intuitively, a firm with higher dependency on suppliers for raw materials is considered to have less power as compared to that of suppliers, i.e. supplier power is higher. Supplier power hence signifies the ability of suppliers to influence a particular firm, and high levels of supplier power may affect the firm positively (if their relationship with the firm is positive) and negatively (if their relationship with the firm is negative). Hence we hypothesize that: H6a. Supplier power moderates the relationship between corporate reputation and a firm’s financial performance negatively. Customer Power (CP): CP is the ability of a customer to lead a firm to undertake activities it would not have considered otherwise. Narver, Slater (1990) believed that firms should understand their target buyers to ‘create superior value’ for them. Yau et al. (2007) opined that a company should be in a position to predict, understand and possibly control customer needs and tastes. Managers acknowledge that major customers are the driving force behind numerous activities performed by firms (Boyd et al. 2010). Customer needs should therefore be properly responded to, for better performance. Customers who purchase a large proportion of a firm’s products or services will have greater influence over the firm’s decisions owing to their prominence (Heide and John 1992). They may therefore have a strong effect on the performance of a firm. Hence we hypothesize that: H6b. Customer power moderates the relationship between corporate reputation and a firm’s financial performance negatively. Employee Power (EP): Employees have been considered as major internal stakeholders and non-consumer stakeholders (Greenley and Foxall 1996). Satisfied employees have a better morale and job motivation (Berman et al. 1999) which leads to better organizational effectiveness (Koys 2001), and success of firms. Their needs have to be taken care of for their improved job performance (Lings et al. 2000). So, at the fundamental level, employees have the power to influence their management and human resource relat-
ed decisions. Higher the employee power, larger will be the amount spent on employee salary and welfare related activities, which may adversely affect firm performance. However, in the case of highly reputed firms, the bargaining power of employees decline as compared to the other firms in the industry and firms spend similar to the industry. Hence we hypothesize that: H6c: Employee power moderates the relationship between corporate reputation and a firm’s financial performance negatively.

2. Proposed model

Based on Neville’s et al. (2005) study, the following model has been proposed for the study, by making suitable modifications in the existing model. These modifications were made based on certain considerations. Reputation of a firm is created in the short run, but is formed and could change over a period of time. Thus, the bond among CSR, CR and FP is a continuous process (Fig. 1).

3. Methodology

3.1. Variables

CSR Intensity refers to the extent to which a firm uses its current year’s profits in CSR activities in the following year. It is captured using a ratio of the firm’s expenditure on CSR activities and the operating profits of the previous year (Paton and Williams 1999). Corporate Reputation has been previously analyzed using ranks of firms provided by the Fortune 500 list (Zadek et al. 1997; Berman et al. 1999). However, the Fortune 500 list analyzes firms at a global level. So, in order to analyze the firms in Indian context, this study used the ranks provided by Fortune India 500. RMC: Following Paton and Williams (1999), the current study used advertising expenditure as proxy for reputation management. To tackle the problem of endogeneity, advertising is lagged by one year (as followed by Paton and Williams 1999). The present study included the industry standardized measure of RMC to remove the industry effects. FP: Net Profit (NP) refers to the relationship between net profit after tax and net sales and has been widely used in existing studies (Rodgers et al. 2013). Market-to-Book ratio is a financial ratio that compares a firm’s current market price to its book value. It has been used in previous studies as a measure of performance (Wang and Quian 2011). ROCE captures the ratio of efficiency and profitability of a firm’s capital investments and is widely used for measuring performance (Soana 2011). Social Initiative – Corporate Strategy Fit: Though literature states that firms practicing socially responsible activities that are inconsistent with its corporate strategies are unlikely to meet the expectations of its stakeholders (Wartick 2002; Rowley and Berman 2000; Pradhan and Roy 2011). The construct “Social Initiative – Corporate Strategy Fit (SI – CSF) measures the extent of match between CSR activities funded by the firm and its organizational goals. If a firm is involved in ‘n’ number of CSR activities, of which ‘p’ number of activities are related to organizational goals while the others are unrelated; then the magnitude of SI / CS fit has been operationalized as: p/n * 100.

To classify CSR activities, the CSR activities mentioned in the annual reports of the company were compared with the stated objectives of the company by the members of the focus group. Competitive Intensity was captured using the Herfindahl- Hirschman Index (HHI) (Ho et al. 2012). The index takes into account all the firms in the market and concentration by incorporating the market share of all firms in an industry. Customer Power used an industry standardized measure (ratio of gross profit margin over the average gross profit margin). Supplier Power was measured by the industry standardized ratio of Raw material cost over COGS. Employee Power was captured using the industry standardized ratio between employee expenditure over operating expenditure.

Figure 1. Proposed Model.
3.2. Data sources
The study analyzed the CSR-CR-Performance relationship from a neutral third party perspective rather than the managerial or customer perspective. In order to remove any biasness, published audited data were used for the analysis. CSR Expenditure (2012) – The data for CSR expenditure was collected from the annual reports of the selected companies. Most of these companies reported their CSR activities and expenditure under the head of Corporate Social Responsibility or in a separate Sustainability Report. Corporate Reputation (2013) – Corporate Reputation was captured using the ranks of Fortune India 500, Business Standard 1000 and Economic Times 500. Financial Data (2011–2013) – The financial data were collected from CMIE (Prowess) database. In order to remove the effect of any anomalies and portray the true picture of the business, average value of three years (2011–13) was taken for all the financial variables as suggested by Rajan and Zingales (1995). CSR-Strategy Fit (2013) – Data for analyzing CSR-Strategy fit was collected from the audited, published annual reports and websites of the company. A focus group discussion was conducted to decide the process to calculate the fit between social initiative and corporate strategy.

3.3. Data analysis

Industry Identification: The industries were classified into 47 groups as per the Fortune India 500 list. The Fortune India 500 list classified firms by merging them with other industries to reflect their true place in the industrial value chain. In case companies were present in more than one industry, they were classified in the maximum revenue earning sector. This was followed by a Structural Equation Modeling.

4. Results and discussion

4.1. Results
Path Analysis using SEM was run to find the influence of CSR Intensity on Corporate Reputation and Firm Performance measured by Net Profit (NP), Price-to-Book Ratio (PBR) and ROCE. The moderating effect of Reputation Management Capability, Social Initiative-Corporate Strategy Fit, Competitive Intensity, Customer Power, Supplier Power and Employee Power were also tested using the framework.

Testing the Model-Fit: A set of goodness-of-fit indices were used to test the fit between the model and the data. The goodness of fit indices for the three analyses

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<th>Table 1. Model Fit Indices for the three analysis.</th>
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<th>Table 2. Results of hypotheses testing.</th>
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<td><strong>Relationship</strong></td>
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using the three dependent variables has been tabulated in Table 1. The $\chi^2$/df value was found to be good for all the three models: 2.080 for NP; 2.325 for PB Ratio; and 2.052 for ROCE (value below 3 being considered to be a good fit (Carmines and McIver 1981)). GFI value for the models were 0.953 (NP); 0.948 (PB Ratio), and 0.954 (ROCE). AGFI values were 0.906 (NP); 0.896 (PB Ratio) and 0.907 (ROCE). NFI values were 0.922 (NP); 0.917 (PB Ratio) and 0.923 (ROCE). CFI values obtained were 0.957, 0.949 and 0.958 for the three models NP, PB Ratio and ROCE respectively. Hence, the CFI values suggest a good model fit of the data (using three different dependent variables). RMSEA values were 0.067, 0.074 and 0.066 respectively for the three models. RMR values were 0.046, 0.050 and 0.046 respectively for the three models, all of which were within the acceptable range.

The results of the hypotheses testing for all the three dependent variables of the study have been presented in Table 2. Table 2 reveals that of all the relationships tested, only four were found to be statistically significant. These significant relationships were found between (a) Social Initiative – Corporate Strategy Fit (SIFIT) and Corporate Reputation (CR); (b) Reputation Management Capability (RMC) and CR; (c) CSRI_SIFIT and CR; and (d) Customer Power (CP) and Financial Performance (FP). Impact of CSR Intensity on CR and Financial Performance: Results reveal the presence of a statistically significant relationship between CSR expenditure of the firm and its reputation (CR) ($\beta = 8.107; p = .024$), when analyzed using net profit (NP) as the dependent variable. So, the higher the firm spends on its CSR activities, the higher is its corporate reputation. The findings of the present study are similar to the findings of Lai et al. (2010), and Hsu (2012) who also found a positive relationship between CSR and CR. When analyzed using PB Ratio as the dependent variable, the results revealed a significant relationship between CSR expenditure by a firm and its reputation (CR) ($\beta = 8.107; p = .024$). The results were same using ROCE as the dependent variable ($\beta = 8.107; p = .024$). These three sets of analyses concluded that higher a firm spends on its CSR activities, more likely it is to improve its corporate reputation. Impact of Corporate Reputation on Financial Performance: Results indicate a positive but statistically insignificant relationship between CR and financial performance. With an increase in corporate reputation, the financial performance of a firm tends to improve. The relationship between CR & PB Ratio is higher ($\beta = .089; p = .342$) compared to CR & ROCE ($\beta = .065; p = .501$) and CR & net profit ($\beta = .055; p = .685$). Though the results suggest a positive relationship, we cannot conclude that an increase in corporate reputation of a firm, performance (in terms of PB ratio, ROCE and net profit) tends to improve. Good corporate reputation is significant as it provides competitive advantage (Chun 2005; Hur et al. 2014) signifying that firms with good reputation are capable of superior profits in the long run. However, this study failed to find statistically significant relationship between reputation and financial performance. The results may be due to the fact that reputation is built over a period of time, and reputed companies may not make profits the same year but in subsequent years. Impact of Social Initiatives and Corporate Strategy Fit on the CSR Intensity and Corporate Reputation: Results reveal a significant moderating role of fit between social initiative and corporate strategy on the CSR-CR relationship ($\beta = 14.370; p = .056$, for NP). The moderating role of social initiative / corporate strategy fit in the CSR – CR relationship was lower for PB Ratio and ROCE as compared to NP. A firm having better fit between the corporate strategy and its social initiatives has a positive and significant effect on its reputation. Prior studies (Rowley and Berman 2000) proposed the significance fit between social issues and an organization’s corresponding strategies in the CSR-FP relationship. Companies re-orient corporate community relations to fit strategic goals (Waddock and Boyle 1995) and gain a competitive advantage (Wood and Jones 1995). A firm whose corporate strategies match with its social initiatives improves corporate reputation of a firm significantly. Impact of Competitive Intensity on the CR-FP Relationship: Results reveal that competitive intensity has no statistically significant moderating role in the CR-FP (NP) relationship ($\beta = .014; p = .457$). While analyzing the moderating role of CI in the CR-FP relationship, measured using PB Ratio as the dependent variable, the results were not significant ($\beta = .016; p = .904$). Similarly, the moderating role of CI in the CR-FP (ROCE) measured using ROCE as the dependent variable, the results were not found to be significant ($\beta = -.056; p = .678$). These results suggest that reputed firms tend to perform well despite high competitive intensity within an industry. Good reputation is highly effective in enhancing performance irrespective of the levels of competition. Though insignificant, the results of this study portray a positive role of competitive intensity in the Reputation-Performance lineage, which supports the findings of prior studies. Reputed firms gain a competitive advantage due to their high reputation and are easily differentiated from the other firms with lower reputation reducing the effect of competition on the firm.

Impact of Reputation Management Capability on the CSR and Corporate Reputation: Results reveal that RMC plays a significant and positive moderating role in the CSR_I- CR relationship ($\beta = 8.980; p = ***$) in the model using net profits as the dependent variable. The model using PB Ratio as the dependent variable, also found a significant and positive moderating role of RMC in the CSR_I- CR relationship ($\beta = 8.980; p = ***$). The analysis using ROCE as the dependent variable revealed that RMC plays a significant and positive moderating role in the CSR_I- CR relationship ($\beta = 8.980; p = ***$). These results signify that a firm with high expenditure on reputation management (advertising, corporate communication) can improve its reputation. Higher the ability of a firm to publicize its social activities, better its reputation. Shimp (1997); Bromley (2000) believed that RMC can be used to increase and/or improve reputation. Investing in adver-
tising improves the corporate reputation of firms very effectively. Impact of Reputation Management Capability on the Corporate Reputation and Financial Performance: The SEM analysis revealed that RMC has no impact on the CR-FP relationship measured by Net Profits ($\beta = .004; p = .845$), using PB Ratio and ROCE it was found that RMC has no impact on the CR-FP relationship ($\beta = .159; p = .334; \beta = .028; p = .869$). Though advertising helps in improving the reputation of a firm that is socially responsible, it does not play any significant role in improving the financial performance of a firm that is highly reputed. Results suggest that highly reputed firms do not need any CSR related advertising/communication to augment their performance. This can be witnessed in the Fortune India 500 list, where the high profit making firms are also the highly reputed ones. Impact of Supplier Power on the Corporate Reputation and Financial Performance: Results reveal a positive (but not significant) moderating role of supplier power on the CR- FP relationship using net profits as the dependent variable ($\beta = .110; p = .660$). The analysis using PB Ratio failed to reveal a negative, though not significant role of supplier power on the CR-FP relationship ($\beta = -1.553; p = .387$). Using ROCE as the dependent variable, results failed to reveal any significant role of supplier power on the CR-FP relationship ($\beta = .057; p = .975$). Though a negative relationship between supplier power and performance was hypothesized, results suggest a positive (though not significant) relationship. This suggests that in reputed firms, there is no effect of supplier power on their NP, PB Ratio or ROCE. The sample for the study comprised top ten highly reputed companies in their respective industries. These companies are market leaders in terms of market volumes as well as in profits. In such cases, suppliers would be able to have significant bargaining power with these companies. Therefore, supplier power has a negligible role in decreasing the performance of such companies. If the analyses were to be conducted using firms that have a lower performance, results may support this proposed hypothesis. Impact of Customer Power on the Corporate Reputation and Financial Performance Linkage: Results reveal a negative (but statistically not significant) moderating effect of customer power on the CR-FP relationship using net profits as the dependent variable ($\beta = -.010; p = .487$). Analyzing the model using PB Ratio and ROCE results revealed a negative though not significant role of customer power on the CR-FP relationship ($\beta = -.115; p = .260$). In firms/industries where customers have a higher bargaining power, net profits tend to decline. Customer power has no effect on the performance of highly reputed firms. The companies used for analysis are already highly reputed and are market leaders in terms of market volumes and profits. Given the level of competition in Indian markets, these firms are always on their toes willing to innovate in order to meet their customer needs. Such reputed companies take customer grievances very seriously. They innovate to retain their customers using various strategies, namely through product quality, service, delivery, after sales service etc.

Discussion and conclusions

In the Indian context, CSR has gained a lot of momentum due to the implementation of new legislations and consecutive expectations from various sets of stakeholders. Consequently, Indian companies changed their stance towards CSR by moving beyond passive philanthropy. Given the statutory requirement imposed by the Companies Bill, 2013, companies should invest strategically rather than simply spending the amount. This was the major motivation to pursue this study and analyze the CSR-FP relationship. Though the study failed to find any statistically significant relationship between CR and FP, intuitively the relationship holds true in a longer time horizon. With an increase in CR, the performance of a firm tends to improve. Good CR provides competitive advantage and firms with good reputation are capable of sustaining superior profits in the long run. Reputation is built over a period of time, and reputed companies may not make profits the same year but in subsequent years.

The results also indicate that Social Initiative-Corporate Strategy Fit plays a significant role in influencing CR of a firm. So when a firm aligns its CSR activities, with its organizational strategy, it tends to improve its reputation. This along with higher advertising and promotional activities influences corporate reputation significantly. A firm whose social initiatives match with its corporate strategies improves CR significantly. Also, spending large amount of money on (strategically related) CSR activities would significantly improve CR of the firm. Indian firms seem to believe that a better fit between the corporate strategy and its social initiatives increases their reputation. Coherence between social initiatives and corporate strategy helps make profits both in the short as well as long run. The results signify that firm that spends higher amounts on advertising and corporate communication tends to improve its reputation. Also by publicizing its social activities, a firm can improve its reputation. This study confirmed the existence of a positive link between RMC and its role on enhancing performance. However, advertising failed to have an impact on the CR-FP relationship. This signifies that firms that are already reputed do not need to advertise/communicate to improve their performance. The Fortune India 500 list also reveals that the high profit making firms are also highly reputed. Highly reputed firms tend to perform well despite high competition within the industry. Reputed companies have better control over their suppliers, and hence do not have any role on the CR-FP linkage. These companies are highly attentive to the needs of their customers and the companies deal with their labor issues vehemently. There was no significant moderating role of supplier power on the CR-FP relationship. It can, therefore, be asserted that in reputed firms, supplier power fails to affect performance. The moderating effect of customer power on the CR-FP relationship was found to be insignificant for all the three measures of performance. This signifies that in firms/industries where customers have a higher bargaining pow-
er the profits tend to decline. Similarly, Customer power and employee power had no effect on the performance of highly reputed firms.

Implications, limitations and suggestions for future research

The current study analyzed the CSR Intensity – FP relationship in the Indian context accounting for external factors like level of competition, customer power and supplier power while using Neville’s et al. (2005) model as the base. This will be a significant contribution to the existing body of CSR literature as it increases the scope of the CSR-CR-FP paradigm. Very few studies have endeavored to look into this field of research (Shang et al. 2014). Previous studies (Mishra et al. 2010) investigated the role of CSR in improving the financial performance, in the Indian context using perceptual data collected from top-level managers. This approach can be criticized on the grounds that the data are affected by the biases of the respondents. Respondents tend to overemphasize the positive aspects of CSR and rank their firms on a higher level than they actually are. This study overcame that deficiency by using audited financial data of the firms. One of the major findings of this study is that stakeholders have no power over a firm that is highly reputed. Taking a clue, managers should take extensive efforts to improve the reputation of a firm that will provide them with an edge over significant stakeholders. The current study also reveals the significance of effective advertising. So managers not only need to be responsible, but also publicize it to significant stakeholders to reap the long-term benefits. From the perspective of the customer, factors like satisfaction, trust and reputation affect their purchase decisions and finally the performance of a firm. Customers purchase from reputed/known firms, and literature suggests that customers purchase the products of a firm that is socially responsible as they feel that they are also being socially responsible by purchasing products of that company (O’berseder et al. 2011). Managers frequently face fundamental issues like: whether to ignore consumers’ interest in CSR; and whether to incorporate CSR issues in their marketing activities. So, from a managerial stand, addressing these issues in their advertising activities will help managers in understanding the role of CSR in and improved reputation, and predict the role of corporate reputation in the CSR-FP linkage. This study further contributes by answering the question whether reputation management capability of a firm positively affects the FP of the firm.

Limitations of the Study: This study completely relies on the CSR information provided by the firms. In the Indian context most of the companies did not report their CSR expenditure prior to 2013. This criterion caused the elimination of numerous firms from the initial sample due to incomplete CSR data. Most of the companies provided an estimated data for CSR amount rather than the actual expenditure both at a firm level and at the sector level. A sector wise data on CSR expenditure would have enriched the outcome and quality of the study. Data from lowly reputed firms could not be used as most of these firms are unlisted and do not undertake any CSR activities. Moreover, even if they spend on CSR activities they do not report it. This was one of the bottlenecks in collecting CSR data from lowly reputed firms and hence only a few of them which reported CSR spending could be included in the sample of this study. This study quantified each of the variables used in financial terms, but variables such as customer power, supplier power and employee power are better explained qualitatively. The study could not use qualitative data due to obvious issues such as: the large number of industries considered; and difficulty in gathering data from individual stakeholders from each firm. Focusing on a single industry and on every stakeholder would definitely provide different results.

Scope for future research: Future studies should be conducted overcoming the limitations described above. Future studies could use the measurements (in accounting terms) provided by this study. The proposed model was tested in the Indian context. Similarly, it can be tested in other countries to improve its external validity. This study used a lag of one year for profits and CSR activities; however, a longitudinal analysis taking lags of more than one year would provide more accurate results. Future studies could take the lag of reputation management capability and its effects on performance in the subsequent periods as reputations are not build immediately, but over a period of time. As discussed above, The Companies Bill, 2013 mandated Indian firms to spend and report their CSR expenditures. So, studies can be undertaken in the Indian context after a few years, when CSR activities result in competitive advantage due to growing reputation. Reputation of an organization can be better measured using qualitative techniques, so future studies can design better ways of capturing corporate reputation. Though this study has been complemented with few case studies, in-depth case analysis both at the firm level and the industry level can be employed to get a better understanding and to substantiate the provided framework. This study focused on highly successful and highly reputed firms in the Indian context, where the stakeholders considered for analysis had no power. These reputed firms were unaffected by all the stakeholders. Future studies should consider all the firms of an industry, both reputed and non-reputed, which may provide different dynamics amongst the firm and its stakeholders that observed in this study. Focusing on a single industry would hence be more fruitful in terms of testing the model, and un-standardized data can be used. However, qualitative analyses including case studies, interviews of each stakeholder group may provide an insight into the true nature of things.

References


