

IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON CORPORATE REPUTATION: INDIAN SCENARIO

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ABSTRACT

CSR has been outlined as voluntarily additional legal duties of organisation to serve environment and community. This voluntarily actions of corporate help them to develop reputation in forms of brand loyalty and good image in the mindset of consumers. The present study examines how corporate social responsibility (CSR) is related to the reputation of Indian business. Perceptual data on CSR towards business reputation were collected from 100 rational consumers through primary data - questionnaire survey. Hard data on financial performance (FP) of the companies were obtained from secondary sources. A questionnaire for assessing CSR was developed with respect to most important stakeholder – Customers. A composite measure of CSR was obtained by aggregating survey questionnaire. The study confirms that socially responsible firm maintains ethics and earns reputation which improves financial performance.

Keywords: Corporate Social Responsibility, Corporate Reputation, Financial Performance,

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Literature Review

The survival and failure of firm is now being judged by their stakeholders - shareholders, analysts, consumers, suppliers, regulators, activists, labour unions, employees, community organizations and news media. Therefore, firms need to do better in non-fiscal domains such as human rights, Quality of Work life, environment, corporate contributions, community development and workplace issues. It is CSR which draws the attention towards good code of conduct and ethical behavior for corporate reputation (Tang Weiwei1, 2007) in the environment.

In current juncture of corporate world with fierce competition, companies find it ever more difficult to handle the pressure of various external stakeholders without social investment (Margolis and Walsh, 2003). CSR initiatives can contribute to reputation advantages such as increased trust in investors, new market opportunities and positive reactions of capital markets (Fombrun et al. 2000). As the world is integrating, the constant worry for better performance has proliferated the concern of firms for developing more novel ways of defining and understanding CSR.

India in the last decade has realised tremendous growth in various businesses. Due to the globalised and liberalised policy, Indian economy has resulted in a shift of the corporate goals from socio-economic focus towards increasing shareholder value to the welfare of various stakeholders. Though, the CSR still seen as merely a charitable deed in India.

Business should proactively watch out the societal and environmental expectations. There has been a huge debate on this issue which has seemingly increased the role of strategic CSR by the business globally. Brammer and Millington (2005) stated that firms with higher philanthropic expenditures have better reputation that shapes the favour of stakeholders. The study by Bhattacharyya (2008) guides which CSR initiatives make strategic sense to the firm through building a CSR Strategy-Framework. CSR expenditure though gave strong impact on business operation but has significant contribution outside the business. . Corporations believe that being socially responsible could create value, brand loyalty and positive impact in the mindset of the workforce and also encourages staff loyalty and commitment (CSM, 2003). The present study seeks to understand the CSR concept from the perspective of Indian firms. It is observed that corporations manage relationship with stakeholder groups rather than with society as a whole (Clarkson, 1995). Thus, this research requires differentiating social and stakeholder issues. Corporations consider stakeholders as vital that vary country to country. It is also assumed that stakeholders do have strong influence on overall corporate performance (Chao et al. 2007; Choi et al. 2010; Snider et al. 2003; Mishra and Suar 2010). Firms are

increasing more proficient at identifying and prioritizing their stakeholders, and linking CSR programs to business and social outcomes (Knox et al. 2005).

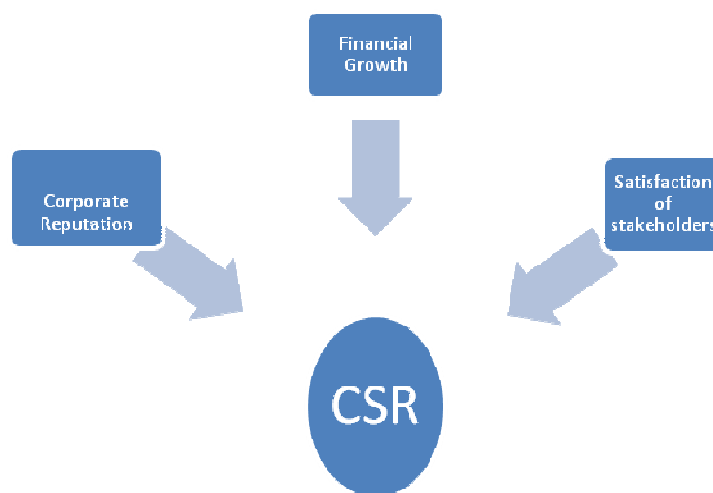
Various dimensions of CSR have been examined globally to assess the important factors of financial growth. Aupperle et al. (1985) examined the relationship between CSR and Profitability while Blazovich and Smith (2010) explored the relationship between ethical corporate citizenship and financial performance (i.e., greater profitability and efficiency, and lower cost of capital). Similarly Bouquet and Deutsch (2008) examined the way CSR affects a firm's capacity to attain profitable sales. Ghoul et al. (2010) found that firms with better CSR scores exhibit cheaper equity financing while examining the effect of CSR on the cost of equity capital. Goukasian and Whitney (2008) observed that CSR firms "outperform" their rivals in satisfying their stakeholder needs and may generate even higher returns for their shareholders in the future and moreover bearing the cost of socially responsible behavior does not have a negative trade off. Webb (2005) also documented positive causal relationship between leverage and certain CSR measures and a lower cost of debt financing for firms with strong levels of CSR. Study of Bedi (2009) reported a positive relationship between CSR expenditure and financial performance on Indian firms.

Conceptual Background

When it comes talking about **Corporate Social Responsibility**, It is extended form of Social Responsibility which covered donation, charity and philanthropy to society by Company. Traditionally, CSR has been defined much more in terms of a philanthropic model. As time passed, the concept of CSR has undergone changes tremendously. In modern era of business world, Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. It addresses the legal, ethical, commercial and other expectations that society has for business and making decisions that fairly balance the claims of all key stakeholders. It promotes vision of business accountability to a wide range of stakeholders. CSR is also known as corporate conscience, corporate citizenship, social performance and sustainable responsible business. The term "corporate social responsibility" became popular in the 1960s. India has one of the most richest traditions of CSR among other countries. Indian business tycoons are treating CSR as more important segment of their business activity but yet it has to receive widespread recognition. CSR is not a new concept in India. Modern businessmen are more concerned with it than their predecessors. Since their inception, corporates like the Tata Group, the Aditya Birla Group, and Indian Oil Corporation, to name a few, have been involved in serving the community. Through donations and charity events, many other organizations have been doing their part for the society.

J.R.D. Tata was the first leading businessman to explicitly recognise that business does not operate in isolation from society. He remarked, “The most significant contribution organised industry can make is by identifying itself with the life and the problems of the people of the community to which it belongs, and by applying its resources, skills and talents to serve and help them.”

Reputation is the true reflection of company’s value, strategies and culture. Corporate reputation influences various stakeholders of organizations and shapes their attitude towards corporation. Ali (2011) found significant influence of corporate reputation on consumer satisfaction and loyalty. Corporation reputation as described by Fombrun (1996) is based on a set of collectively held beliefs about a company’s ability and willingness to satisfy the interests of various stakeholders. Bromley (2002) and Sandberg (2002) viewed reputation as a socially shared impression and a consensus about how firm will behave in any given situation. There are strong reasons to believe that corporate reputation drive business success. Bennett and Rentschler (2003) has defined reputation as image and identity of a corporation but related to value judgment, develops over a longer time span, on its consistency, dependability and credibility. A company reputation (image /identity) can affect its consistency and effectiveness in reaching its internal employees. Marken (2002) described reputation as “quality product and service, innovative capability, long term investment plan, attraction ability, retention of talent and quality management control.” Marken (2004) has mentioned in his study that each reputation is being developed on daily activities. Smith (2003) have analyzed in his survey that annihilation of reputation is the biggest risk for the company. Corporate reputation of a firm combines with other business activities, pointed at stakeholders (Gardberg, 2001).



Research Objectives

- ❖ To examine the relationship between CSR and corporate reputation.
- ❖ To determine the significance of CSR and Financial Performance.
- ❖ To understand the dependency of CSR expenditure on financial performance.

Hypothesis

H1- Indian firms are significantly inclined towards Socially Responsible Practices.

H2- Adoption of CSR positively influences the corporate reputation for Indian firms.

H3- For Indian firms, adoption of CSR would have a positive impact on their financial performance.

Sample Size

CSR is indeed concerned with stakeholders. Hence, researcher has taken 100 consumers as sample size because consumer is one of ingredients of stakeholders. The unit of analysis in study was the individual customer and the target population in this study was the customers of Delhi.

Data Source

Researcher has used both primary and secondary sources of data. A survey questionnaire was designed for primary data collection to measure the impact of CSR on corporate reputation. A questionnaire was focused on the financial and social performance, Customer ideology, stakeholder relationship and creation of competitive value. To make more effective results, secondary data has been used; such as websites of companies, their annual reports, newsletters, publications, and other relevant documents.

Development of Survey Questionnaire

A questionnaire was segmented into four sections and a total of 31 opinion base statements were designed using five point Likert's scales. ESCR, CR, FP and GSR stand for Evaluating perspective of Corporate Social Responsibility, Corporate Reputation and Financial Performance. Following is table which gives detail of different structure of questionnaire:

Table1:Questionnaire Structure

Section	Code	Section Name	No. Of Questions	Scale used
A	ECSR	Evaluating perspective on CSR	09	Likert
B	CR	Evaluating perspective on CR	09	Likert
C	FP	Evaluating perspective on FP	09	Likert
D	GVR	General view of CSR	04	----

Table2: Numerical code for Questions

Scale	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Numerical code	1	2	3	4	4

Table3: Respondents Demographics

Demographic variables	Number	Percentage
Level of Consumers		
Higher educated (Post Graduate)	64	64%
Middle level educated (Graduate)	31	31%
Low level educated (12 th)	05	5%
Gender		
Male	73	73%
Female	27	27%
Age		
Between (20-30) years old	23	23%
Between (30-40) years old	42	42%
Between (40-50) years old	25	25%
Between (50-60) years old	08	8%
Above 60 years old	02	2%

Research Methodology

The researcher employed Descriptive Statistics and Factor Analysis for data analysis using the SPSS 16 statistical software. In factor analysis, Kaiser –Mayer-Olkin (KMO) and Bartlett’s test of sphericity were applied before Principal Component Factor (PCF) analysis. The obtained factors

were rotated to get a factor solution and extracted factors were then tested for reliability using Cronbach's alpha. The factors are then interpreted in order to present the best explanation for the variables influenced by that factor.

Data Analysis and Interpretation

Factor analysis was conducted on three individual sections. Nine questions or variables from each section were analysed. The mean value of all the variables is greater than 3. Coefficient of correlation was less than 0.5 therefore, none of the variables was dropped as no multi-collinearity observed. In an identity matrix, all the diagonal terms are 1 and all off diagonal terms are 0. The correlation matrix constructed to from the data obtained to know the impact of CSR on Corporate Reputation. There are relatively high correlations among ECR1 and CR8. The results of factor analysis are given in Table 4. Of all the sections, KMO statistic value (0.520) was greater than 0.5 and Bartlett's values (0.02) was less than 0.05 which is acceptable to conduct Principal Component Analysis. The number of factors was determined by cut off eigen values = $\lambda > 1$ for all the sections. Based on the results of Rotated Components Matrix, best combination of variables from each section was identified. It is to be noted that variables having low factor loading from cut off value, were also included in the combination which show greater significance in representing the section.

The cut off eigen values all the sections are (1.823, 1.315 and 1.072) > 1 which proves the combination is excellent and acceptable. Hence, from each angle our hypothesis has been analysed. According these results, hypothesis is accepted.

Table 4: Descriptive statistics and correlation matrix of eight variables

Descriptive Statistics			Correlation Matrix							
Variable Code	Mean	Std.Dev	ECR1	ECR4	CR3	CR4	CR8	FP1	FP4	FP8
ECR1	3.4800	.73140	1.000							
ECR4	3.4200	.96588	-.017	1.000						
CR3	3.6500	1.09521	.061	.102	1.000					
CR4	4.0900	.37859	-.048	.117	.125	1.000				
CR8	3.9500	.47937	-.075	-.303	-.034	-.086	1.000			
FP1	4.3300	.73930	-.034	.002	.082	.145	-.010	1.000		
FP4	3.9800	.40151	-.001	.048	.237	.211	-.215	.227	1.000	
FP8	4.4000	.71067	-.198	-.306	-.104	-.060	.119	.073	-.219	1.00

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.520
Bartlett's Test of Sphericity	Approx. Chi-Square	54.567
	Df	28
	Sig.	.002

Table6: Total Variance
Total Variance Explained

Component	Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.823	22.781	22.781	1.517	18.960	18.960
2	1.315	16.438	39.219	1.471	18.388	37.348
3	1.072	13.404	52.623	1.222	15.275	52.623

Extraction Method: Principal Component Analysis.

The section D in the questionnaire General view of CSR deals with the various questions (GVR1 to GVR4) aim to some extent, to understand the ideology, perception of respondents towards ethical practices. This section deals with qualitative analysis. The section has used various scales as multi-answer multi choice questions, single answer-multi choice questions, and open ended questions. As for Indian firms, CSR is not really a new concept. While identifying the stage of the best practice behavior of the firms, the analysis (GVR1) showed that 61% respondents replied that local community is more important stakeholder while considering CSR, 18% respondents said that employees are key important, 12% respondents replied that consumers are important stakeholders whereas 9% respondents replied that shareholders are important stakeholders. The analysis (GVR2) showed - 42% respondents replied that they give priority to socially responsible companies while purchasing goods or services while 58% of respondents said that they don't give priority to the socially responsible companies. It means CSR is still a stumbling block for Indian firms. According to analysis(GVR3), 38% respondents replied that Firms cannot compromise with quality if they contribute to the CSR where as 62% of respondents replied that contributing to CSR means compromising with quality. They mentioned that no firm wants loss in any form. While discussing GVR4, it is revealed 69% of respondents replied that CSR is extra tax except tax slab which is charged to the companies but 31% of respondents said Contributing to CSR is a kind of philanthropy activities, it is not extra tax paid by firms. The study of Shankar and Panda (2011) also indicated that Indian firms have mentioned Profitability and Growth as an important theme while associating with

CSR. Firms believed that CSR is not just a charitable deed but it is a way of doing business sustainably, more ethically and to become a part of the community. It is also observed that CSR is generally used to score better on the firm's reputation and enhance brand value. Very few firms really use their core competence to benefit the community (Karmayog, 2007). On the basis of these 4 identified factors, CSR helps firms to innovate in order to satisfy its consumers, grab market opportunity and differentiate themselves from others in an ethical way to become competent.

Conclusion

The significant contribution of this study is the identification of business reputation – CSR factors which would help firms to prioritize their responsible actions as well as business commitments. Since ancient time, Indian firms are influenced by rich Indian culture and strong roots of philanthropic activities. They were engaged till today in something giving back to society from which they have taken a lot for initiation this business. But the mainstream of globalization has changed the mindset of the corporate world where giving back is not sufficient. Moreover growing markets and diversified industries have made new lines of business operations in the world economic landscape. Today's business environment is more complex than earlier and it is expected that firms should regard the relationship with stakeholders at the strategic level to create value for shareholders and stakeholders. Similarly transparency and compliance support firms to win their stakeholders. This proves that CSR may positively influence relationships with their stakeholder which creates corporate reputation. Indian CSR is typically associated with philanthropy or charity, i.e. through social contribution in education, health, sports, the environment, and other purposes. Firms have realized the economic, financial and profitability performance towards themselves and towards society as well. Analysis revealed that CSR not only strengthens the core of business, but also creates value along with cost and risk reduction and supports it in maintaining this attitude over decades. As per the understanding, the corporation should consecrate concern towards multiple interconnected bottom lines such as social, environmental, market and people bottom lines instead of a single "bottom line of Profit". This proves that adoption of CSR would have a positive impact on the financial performance of firms. It was reported that CSR helps in generating healthy competition with ethical foundation and steers the corporations towards Transparency and Disclosures. Importantly, it specifies significant difference between organizational profiles for Competency. Hence, it can be said that from consumer to government, from shareholder to partner and from community to environment, everyone has its role and importance for a business from the inception. However, firms have started recognizing the vital importance of CSR in long term and acknowledging CSR into their Strategic Plans for creating corporate reputation.

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To assess the impact of Corporate Social Responsibility on Corporate Reputation

Name of Respondent:

Sex:

Age:

Profession:

Age: 20-30 30-40 40-50 50-60 Above 60

Experience:

Organisation:

Section A: Evaluating Perspective on CSR

Rate the statement: 1-Strongly Disagree 2-Disagree 3-Neutral 4-Agree 5-Strongly Agree

ECSR1	Leading socially responsible firms are concerned with high financial performance	1	2	3	4	5
ECSR2	The good image of a firm leads to sustaining a superior	1	2	3	4	5

	financial performance over the time					
ECSR3	Firms having more resources are interested in contributing more to society	1	2	3	4	5
ECSR4	Being socially responsible is like a free marketing tool for strengthening stakeholders relations and supply chain management	1	2	3	4	5
ECSR5	Firms involving in more social contribution creates a healthy competition, ethical and transparent business practices to establish a harmonious relationship in or outside the firm	1	2	3	4	5
ECSR6	CSR is one of ingredients for attaining sustainable growth	1	2	3	4	5
ECSR7	CSR can be a source of opportunity and innovation	1	2	3	4	5
ECSR8	Firms have to formulate and implement CSR activities to maximize competitive advantage	1	2	3	4	5
ECSR9	Firms improve their market positioning through strengthening corporate culture and social welfare activities	1	2	3	4	5

Section B: Evaluating perspective on Corporate Reputation

CR1	Customer is influenced positively for CSR firms to purchase products and services	1	2	3	4	5
CR2	Firm has to spend more amount of funds in CSR to ensure customer loyalty	1	2	3	4	5
CR3	Socially responsible firm creates corporate reputation in the mindset of customer	1	2	3	4	5
CR4	The firm involved in resolving complaints of consumers and suppliers improves competitiveness.	1	2	3	4	5
CR5	Socially responsible firm sell its products and services in high cost	1	2	3	4	5
CR6	Socially responsible firm encompasses on post purchase behaviour of consumer	1	2	3	4	5
CR7	The firm charges more hidden cost which spends more in CSR activities	1	2	3	4	5
CR8	Socially responsible firm never compromises with quality of products and services	1	2	3	4	5
CR9	The firm which involves into CSR activities, their brand value is always high	1	2	3	4	5

Section C: Evaluating perspectives on Financial Performance

FP1	Being Socially responsible firm has influence on market price of share	1	2	3	4	5
FP2	Firm which contributes more in CSR gets easily trade	1	2	3	4	5

	credits for the short term financing of the firms					
FP3	Participation in the socially responsible activities may impact the financial performance of business	1	2	3	4	5
FP4	Rational investor is always willing to invest in the firm which contributes in CSR activities	1	2	3	4	5
FP5	Investing in socially responsible activities is a kind of re-investment	1	2	3	4	5
FP6	Socially responsible firm may lessen overall cost of capital because of easy availability of resources for raising funds	1	2	3	4	5
FP7	Firm's ethical practice leads less financial cost and long term competitive advantage	1	2	3	4	5
FP8	Socially responsible firm distributes dividend in expected time period to the shareholder	1	2	3	4	5
FP9	Socially responsible firm doesn't suffer from overtrading and under trading because it always focuses on adequate level of working capital	1	2	3	4	5

Section D: General view regarding CSR

GVR 1) who is more important stakeholder while considering firm's CSR policy?

- Consumers
- Employees
- Shareholders
- Local communities

GVR 2) Do you give priority to the socially responsible firms while purchasing products or services of concerned firm?

- Yes
- No

GVR 3) Does company compromise with the quality of product when it contributes amount in form of CSR?

- Yes
- No

GVR 4) Do you contemplate CSR as extra tax paid by firms?

- Yes
- No