Mediation effect of reputation on the stakeholders’ centric CSR and financial performance relationship

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Abstract: This paper aims to investigate the relation between stakeholder led CSR, reputation and the financial performance. The stakeholders considered in the research were employees, environment, community, customers and investors. The reputation of the company has been taken as the mediator to analyse the change in CSR and financial performance relationship. A questionnaire was designed having 30 items enumerating the seven constructs. The structured equation modelling has been used to analyse the conceptual model of the impact of CSR on reputation and then on financial performance. The results concluded that all the stakeholders were significant in influencing the CSR decision making, with employees and investors being the most significant ones. It was also concluded that CSR positively impacts the reputation and reputation fully mediates the relationship between CSR and financial performance. Thus, major implication of the study is that managers can adopt the stakeholders’ centric CSR activities so as generate the positive reputation which in turn would positively impact the company’s sales revenue and profit.

Keywords: company’s act; corporate social responsibility; CSR; employees; women director; structured equation modelling; investors.

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Parul Kumar is a keen researcher, trainer and educator, and having an experience of 10+ years. She holds a PhD in Finance from IGNOU. She has conducted corporate training sessions on Advance Excel, SPSS, AMOS and EViews on regression analysis, research methodology and data analysis. She holds certification in data analytics, predictive modelling, and regression analysis. She has authored and co-authored research papers, published Scopus, ABDC, UGC Care and referred journals. Her research interests include financial markets, foreign portfolio investors, behavioural finance, corporate governance, and social sciences.

Devesh Nigam is a Professor at the Institute of Tourism and Hotel Management, Bundelkhand University, Jhansi. He is a brilliant academician and excellent administrator. He has more than 20 years of experience in higher education. He has been a member, coordinator and expert of various committees at university, state and national level. He has supervised a number of research students for PhD. He has published 36 research publications in international and national journals and has six books to his credit. Tourism safety, ecotourism, medical tourism, and rural tourism are the main areas of his specialisation. He has been a mentor/resource person/key note speaker in many seminars/workshops. He has wide and comprehensive experience in academics and administrative activities and has established milestone achievements for professional courses, infrastructure, and state of the art in academic institution.

1 Introduction

Companies depend on the stakeholders in order to have an access to the resources that are necessary for their survival and for their development. A company cannot operate in isolation without taking into consideration the interest and benefits of different stakeholders attached to it. The key component of any company’s corporate social responsibility (CSR) initiatives is the way the company involves the shareholders, employees, customers, suppliers, governments and other stakeholders. CSR activities are the actions that companies undertake voluntarily for the benefit of society, environment and communicate the same to its key stakeholders.

Many studies as well as corporates have defined CSR as the compilations of activities or deeds which are directed towards the stakeholders. In order to continue business in the 21st century, being a socially responsible organisation seems like a necessary criterion.
Nowadays, it has become an obligation for the business to act as ethical agents in the society and to give much priority to social responsibility and public service over personal gains and interests.

According to Maignan and Ferrell (2004), the CSR initiatives that a company undertakes to address the concerns of various stakeholders directly impact the relationship between the company and its stakeholders. The studies based on CSR indicates that, CSR activities directed towards the stakeholders, mostly leads to a number of positive outcomes for the concerned business (Lindgreen et al., 2008; Raman, 2006; Waddock and Graves, 1997). These favourable outcomes include positive influence of CSR on reputation of a corporate which, in turn, leads to an increase in business performance (Ackerman, 1975; Baron, 2001; Garriga and Mele, 2004; McGuire et al., 1988). Koning (2018) found that reputation and CSR complement each other rather than substituting. Reputation was found to increase return on capital, return on assets, and return on equity while CSR was found to be positively related to the above, as well as net interest income.

This paper attempts to study the impact of stakeholders’ expectations on CSR activities of the firm and study the influence of these over the reputation and financial performance of the company. The present study has been the extended version of the part of the thesis submitted by the first author to Bundelkhand University, Jhansi. Section 1 of the paper deals with introduction of the research area, Section 2 presents the critical review of the literature along with the objectives and hypothesis of the study. The research methodology has been presented in Section 3. Section 4 and Section 5 presents the detailed analysis along with the discussions. The paper concludes with conclusion of the research in Section 6, followed limitations of the study in Section 7 and finally Section 8 highlighting the future scope.

2 Literature review

This section of the paper is divided into four parts, where the first part relates to the literature of CSR and its definitions while the second part refers literature related to the stakeholders. The next part focuses on the impact of CSR on Reputation followed by the impact of CSR on FP of the company.

2.1 CSR

CSR as a concept is still evolving and presently there is no definition accepted as the universal level to define CSR. It can be defined as creating value for the society at large by making efficient use of the available resources, thereby benefiting all the stakeholders of the business.

According to the European Union, CSR is defined as a program in which “companies decide voluntarily to contribute to a better society and a cleaner environment”.

The United Nations Industrial Development Organization defines CSR as “a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders”.
2.2 CSR and stakeholders

The explicit relationship between stakeholders and CSR as defined by Carroll has been academically accepted. CSR defines what responsibilities a business should fulfil while the concept of stakeholder addresses the issue of business accountability (Kakabadse et al., 2005). Corporations today are viewed as ‘extended enterprises’ that are operating at the centre of “a network of interrelated stakeholders that create, sustain and enhance their value-creating capacity” (Post et al., 2002). There is a change in the extended enterprise’s environment in which organisations operates, and as a result the relationship of a firm with its stakeholders has been shifted from being essentially transactional to truly relational. These relationships have either positive or negative affect on the creation of organisational wealth (Post et al., 2002; Simmons, 2004).

The traditional definition of a stakeholder is “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Freeman, 1984). However, Freeman (2004) modified this definition by “those groups who are vital to the survival and success of the organization”.

One can differentiate between different types of stakeholders by considering groups of people having relationships with the organisation. These different stakeholders are identified as, employees, customers, shareholders, suppliers and distributors and local communities. Gaur (2013) broadened the concept of CSR to consider everyone who has an interest (or ‘stake’) in the entity and what it does which also includes members of a community in the local areas and the environment where the offices or factories are located. In this context, the term stakeholder apart from including the directors or trustees of the governing board, also includes all the persons who have paid in some stake to the company and the ones to whom something is to be paid by the company. Nowadays, it is not possible to talk about CSR without considering these different stakeholders who are related to the company (Sun et al., 2010).

2.2.1 Employees

CSR activities positively influence the employee behaviour and they feel more motivated, satisfied and loyal towards the firm. This allows management to bring the best out of each employee and it ultimately creates a favourable business trend (Torugsa et al., 2012). The firms which are responsible always keep its employees on priority and take keen interest in them as they understand that the employees are the key drivers of any organisation (Raman, 2006). The employees, if given a choice, will always choose to work in a company which is socially responsible (Fontaine et al., 2006). Ali and coauthors (2010) also conclude that when a firm is highly responsible towards its CSR activities, it positively influences the employees’ loyalty which leads to an efficient business process. Socially responsible business activities lead to greater motivation levels, loyalty and satisfaction through which the employees and other internal stakeholders relate themselves with the values of the organisation (Kim et al., 2010).

Employees like to work with the companies that follow ethics while dealing with their employees and also while engaging with the society in general (Coldwell et al., 2008; Stevens, 2008; Valentine and Fleischman, 2008). Thus, one can say that, employees play an essential role in the success of their company and also influence its decision making (Spitzeck and Hansen, 2010). Apart from this, motivated and satisfied employees always speak positive for the company and, thus would help in establishing
positive CSR reputation of the firm (Cho and Kim, 2012). Yadav et al. (2018) conducted a research on an automobile industry in India. They concluded that perceived CSR of an organisation leads to the development of trust among the employees, which in turn builds the reputation of an organisation.

2.2.2 Investors

Everyone wants to be associated with a firm that is socially responsible (Gillis and Spring, 2001). Shareholders demand increased dividends, high market value of shares and increased privileges (Gaur, 2013). To strengthen corporate governance codes and standards, various committees have been established by the government namely Cadbury committee, Security and Exchange Board of India (SEBI) guidelines, OECD guidelines, and others. When the governance practices are strengthened, CSR towards investors automatically improves.

2.2.3 Community and environment

CSR, a stakeholder focused concept, is based on understanding the ethical responsibilities that an organisation has towards the environment and society as a result of the influence of its business activities (Maon et al., 2009).

Community demands clean environment, with no disturbances. The business should also provide basic services to the public like schools, hospitals, road development etc. (Gaur, 2013). It has been observed that community in its role as a consumer, has boycott the firms that had been following unethical business practices, representing that the firms lack in their CSR initiatives (Klein et al., 2004). Local residents also have a strong say by supporting or opposing the business activities which are crucial to the success of the organisation. For instance, activities like sponsoring or hosting events in a community, engagement in local community activities or donations to local organisations like hospitals, libraries, schools, cultural organisations and charities can initiate cooperation and support from local residents (Cho and Kim, 2012). Komodromos and Melanthiou (2014) in his study, focused on the Cyprus market. They stated that CSR is an essential ingredient in the success of the organisations. It positively impacts the environment and the public, in general, as it gives an opportunity for building a relationship with the community in which it operates.

The communities and environmentalists have high regards for the organisations who recognises their social obligations which leads to greater marketing opportunities, minimised risk and also enhances the firm value (Petersen and Vredenburg, 2009).

2.2.4 Customers

Customers demand desired product with timely delivery, prompt and quick service, compensation for losses, quality of product being maintained with no increase in prices (Gaur, 2013). This result in willingness of the customers to pay more for goods and services which are being offered by socially responsible companies, so businesses differentiate their products based on these activities (Bhattacharya et al., 2008). A product differentiated by the company on the basis of CSR, will obtain an advantage over its competitors and by being a leader in the market it shall ensure the growth and stability of its business operations (Boehe et al., 2010). The conduct and communication of the
socially responsible behaviour, positively affects the customers’ trust and satisfaction. Thus, these customers identify themselves with the values of the firm (Martinez and Del Bosque, 2013). Pirsch et al. (2007) concluded that customer loyalty and adherence to the firm’s values generate financial benefits for the firm because the customers are willing to pay a higher price for the goods and services than the price charged by these firms. Hence, in the light of discussion above related to importance of the stakeholders, the objective for the present research has been:

- To identity the contribution of environment, customer, community, employees and investors to stakeholder centric CSR.

H1 Stakeholders (employees, environment, customer, community, investors) contribute to CSR.

2.3 CSR and reputation

According to Boyd et al. (2010), positive reputation achieves better results. This is true in case of competitors offering similar quality products and services, positive reputation which is an intangible asset of the company. It cannot be imitated from the opponents, since it is on the basis of various activities among which socially responsible activities hold a bigger stand. Lai et al. (2010) and Lii and Lee (2012) analysed the CSR and reputation relation and found that socially responsible and irresponsible activities led corporate actions have an impact on the reputation and performance of the firm. Organisations irrespective of their types and sizes engage in CSR activities, as it strengthens the corporate reputation and is not just a promotional opportunity (Petkevičienė, 2015). Thus, another objective of the study is to investigate the relationship between CSR and Reputation of the company on the basis of following hypothesis.

H2 CSR significantly impacts the reputation of the company.

Menon and Menon (1997), Weaver et al. (1999), Siegel and Vitaliano (2007) and Turker (2009), in their research found that CSR activities influence corporate reputation which ultimately increases the performance of the business. The positive perceptions about the company motivates the customers to make purchases and develop a positive association with the brand (Neville et al., 2005), reputation helps in forming the consumer attitudes and perceptions about a company (Fombrun and Shanley, 1990). On the other hand, as per Creyer and Ross (1997) if the CSR programs and activities are mismanaged, it can cause damage to the brand reputation and the stakeholders might negatively evaluate the company.

2.4 CSR and FP

Hopkins (2003): “CSR is concerned with treating the stakeholders of the firm ethically or in a socially responsible manner. Stakeholders exist both within a firm and outside. The aim of social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for its stakeholders both within and outside the corporation”. According to Esse et al. (2012), recent studies confirm that stakeholder management approach through CSR can enhance profitability and competitiveness. The
study conducted by Du et al. (2011) concluded that by adequate supremacy of the application of CSR, better financial results can be achieved by the management. Research also concluded that better CSR practices increase the standard of living of company’s stakeholders, both internal and external, which ultimately improve the community. James (2015) in his study concluded that CSR has a direct correlation with FP parameter, i.e., profit before tax. Jeffrey et al. (2019) found that CSR behaviour has been positively correlated with firm’s value. This in turn is beneficial for a firm, as it receives a premium in their stock price. Hence, the third objective of the research is to analyse the impact of CSR on FP.

H3 CSR significantly impacts the FP of the company.

2.5 Reputation and FP

Fombrun and Shanley (1990), Lai et al. (2010), and Neville et al. (2005) have concluded that firm’s reputation and its performance are positively associated with each other. As the reputation becomes more positive, the performance reaches new heights. Pelozza (2006) in his research concluded that a business that fulfils its CSR obligations generates a positive bond between company’s reputation and stakeholders. Similarly, Melo Garrido-Morgado (2011) concluded that CSR positively affects reputation, in its multidimensional form, which promotes public policies. This encourages the companies to engage proactively in the relationship with their stakeholders, as these can be for their image and reputation. The final objective of the study is to analyse the mediating effect of reputation on the relationship of stakeholder centric CSR and FP, in other words, to study the evidence of association between reputation and FP.

H4 Reputation fully mediates the relationship of CSR with FP.

On the basis of the literature discussed above, this research paper measures the CSR using the stakeholder approach, along with investigating its impact on company’s reputation, and then on the FP. The associations include identification of the stakeholders’ perceived influence on management’s decisions, assessment of whether CSR activities influence reputation of the company and mediating impact of reputation on CSR and FP relation.

3 Research methodology

CSR has been measured using the stakeholder approach which includes employees, environment, customer, and community. On the basis of the literature, we have added another component in measurement of CSR as Investor. Thus, the objective of the paper is to measure the CSR with five constructs and analyse its impact on reputation and FP. Since the research area CSR has the existing theoretical foundation across globe, the existing scale was adopted. However, few modifications have been done on the basis of new existing literature.
Table 1  List of variables with their statements

<table>
<thead>
<tr>
<th>Construct</th>
<th>Variable</th>
<th>Statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td>ENV1</td>
<td>Recycling and waste reduction</td>
</tr>
<tr>
<td></td>
<td>ENV2</td>
<td>Support energy conservation</td>
</tr>
<tr>
<td></td>
<td>ENV3</td>
<td>Reduction of pollution from environment</td>
</tr>
<tr>
<td>Employees</td>
<td>EE1</td>
<td>Development of skills and career</td>
</tr>
<tr>
<td></td>
<td>EE2</td>
<td>Anti-discrimination policy</td>
</tr>
<tr>
<td></td>
<td>EE3</td>
<td>Consult employees in decision making</td>
</tr>
<tr>
<td></td>
<td>EE4</td>
<td>Commitment towards health and safety</td>
</tr>
<tr>
<td></td>
<td>EE5</td>
<td>Improve employee motivation</td>
</tr>
<tr>
<td>Customers</td>
<td>CUST1</td>
<td>Assurance of quality in given cost to customer</td>
</tr>
<tr>
<td></td>
<td>CUST2</td>
<td>Resolution to customer complaints</td>
</tr>
<tr>
<td></td>
<td>CUST3</td>
<td>Provide value and respect to customers</td>
</tr>
<tr>
<td>Community</td>
<td>COM1</td>
<td>Donate to charity</td>
</tr>
<tr>
<td></td>
<td>COM2</td>
<td>Employee volunteers on behalf of company</td>
</tr>
<tr>
<td></td>
<td>COM3</td>
<td>Involvement in projects with local community</td>
</tr>
<tr>
<td></td>
<td>COM4</td>
<td>Providing job opportunities to local community</td>
</tr>
<tr>
<td>Investors</td>
<td>INV1</td>
<td>Pressure from third parties</td>
</tr>
<tr>
<td></td>
<td>INV2</td>
<td>Mandatory by law</td>
</tr>
<tr>
<td></td>
<td>INV3</td>
<td>Improve company reputation</td>
</tr>
<tr>
<td></td>
<td>INV4</td>
<td>Attract more investments</td>
</tr>
<tr>
<td></td>
<td>INV5</td>
<td>Improve relations with investors/shareholders</td>
</tr>
<tr>
<td>Financial</td>
<td>FP1</td>
<td>Change in profit margin of firm</td>
</tr>
<tr>
<td>performance</td>
<td>FP2</td>
<td>Change in sales revenue of firm</td>
</tr>
<tr>
<td></td>
<td>FP3</td>
<td>Satisfaction with change in profit margin</td>
</tr>
<tr>
<td></td>
<td>FP4</td>
<td>Satisfaction with change in sales revenue</td>
</tr>
<tr>
<td></td>
<td>FP5</td>
<td>Financial implications of CSR are experienced in long term</td>
</tr>
<tr>
<td>Reputation</td>
<td>REP1</td>
<td>We believe our customers are aware that company sells high quality products</td>
</tr>
<tr>
<td></td>
<td>REP2</td>
<td>We believe that our customers are aware that we are an innovative company</td>
</tr>
<tr>
<td></td>
<td>REP3</td>
<td>We believe that our customers are aware that we are a leader in our industry</td>
</tr>
<tr>
<td></td>
<td>REP4</td>
<td>We believe that our customers are aware that we are socially responsible company</td>
</tr>
<tr>
<td></td>
<td>REP5</td>
<td>We believe that our customers are aware that our company provides excellent value for money</td>
</tr>
</tbody>
</table>

*Source:* Author representation
Mediation effect of reputation on the stakeholders’ centric

The scale thus consisted of 30 items focusing on five constructs, i.e., employees, environment, customer, community, investors and five statements each on reputation and FP. These 30 items have been adapted from previous studies (Bhattacharya and Sen, 2004; Hopkins, 2003; Jain et al., 2016; Stanwick and Stanwick, 1998; Sweeney, 2007; Maignan and Ferrell, 2004; Mishra and Suar, 2010; Rettab et al., 2009). Reputation is incorporated in the model as a mediating variable between CSR and FP (Neville et al., 2005). The items assessing reputation and FP were adopted from the existing studies of Caruna, (1997), Caruna and Chircop (2000), Helm (2005) and Hooley et al. (2005). Table 1 lists all the seven constructs along with their variable names and statements indicating CSR related deeds.

For testing the hypotheses, the researcher has developed a self-administered online survey including the new parameter for CSR measurement. To test the face and content validity of the questionnaire, two industry experts and two academicians were approached. Hard copies as well as e-copies of the questionnaires were distributed among the people who were working in either public or private firms. The sample has been selected on the basis of non-probability sampling. Only those employees/managers were chosen whose companies/firms were involved in CSR activities. In the questionnaire, the respondents were questioned upon how their firms were contributing towards satisfying the needs of various stakeholders. Their responses have been validated with respect to convergent and discriminant validity. Overall 2,520 questionnaires were sent out of which 527 were reverted. Out of these 527 responses, only 272 responses were found valid for the analysis. Thus, the usable response rate was 13.6%, calculated as \( \frac{272}{2520 - 527} \).

Further, it is essential to evaluate items of the Investor construct through exploratory factor analysis (EFA). EFA is used for the situations where association between the existing scales is not available. Hence after the formulation of proposed questionnaire items including the Investor as a construct, an EFA was performed in order to determine the extent of relation of the item measurements with the CSR. EFA was conducted by way of IBM SPSS 23 on the sample of 100 respondents.

The present study only adds to the existing model, thus after measuring the Investor construct, all the other constructs are modelled together in confirmatory factor analysis (CFA). The CFA is used to verify the variables and constructs relations in the measurement model. The proposed measurement model is presented in Figure 1. The CFA was conducted on the sample of 272 respondents followed by the structural equation modelling (SEM) and Path analysis. This methodology has been used for the testing of major hypothesis and estimating the goodness of fit of the proposed model. In the present research, one second-order latent variable (CSR) along with seven first-order latent variables i.e., customer (CUST), employee (EE), environment (ENV), community (COM), investor (INV), reputation (REP) and FP were used. The CFA model is presented in Figure 2.

SEM technique was used to test the hypothesis. This technique pictorially models the causal relations under study as a series of regression (structural) equations, to enable analysis of series of inter-related dependence relationships simultaneously. The hypothesised model can be tested statistically in a simultaneous analysis of the entire scheme of variables to determine the extent to which it is consistent with the data.
Figure 1  Proposed measurement model of CSR (see online version for colours)

4 Analysis

The measurement model presented in Figure 1, has been tested in parts. First EFA was run to check the existence of Investor as a construct. In order to check all the constructs together, we have conducted the EFA of all the seven constructs together. The results of the same are presented in Table 2. Then CFA was run to test the validity and suitability of the measurement model with all constructs together. Cronbach’s alpha (α) and composite reliability (CR) were used to check the construct reliability of all the seven constructs. Convergent and discriminant validity was also checked by way of average variance explained (AVE) and mean squared variance (MSV). Figure 2 represents the measurement model.

Table 2 represents the results of α, CR, AVE, factor loadings of EFA and CFA and explanation power, i.e., R^2. Convergent validity was evaluated for the seven constructs using the criteria given by Fornell and Larcker (1981), i.e., all factor loadings must exceed 0.70; Construct reliabilities (measured by α) must exceed 0.80; and AVE by each construct must exceed the variance due to measurement error for that construct (i.e., AVE should be > 0.50). All these conditions were satisfied by the constructs as shown in Table 1. Degree of freedom ratio (CMIN/df), comparative fit index (CFI), goodness of fit index (GFI), root mean square error of approximation (RMSEA) and root mean square residual (RMR) (Byrne, 1989; Hu and Bentler, 1999) have been used to check the measurement model fit. The measurement model, shown in Figure 2, consists of seven constructs. Each construct is measured by a minimum of three to a maximum of five observed variables.
Table 2  EFA and CFA results

<table>
<thead>
<tr>
<th>Construct</th>
<th>Measurement aspects</th>
<th>EFA loadings</th>
<th>CFA loadings</th>
<th>$R^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>COM</td>
<td>COM1</td>
<td>.932</td>
<td>.93</td>
<td>.86</td>
</tr>
<tr>
<td>(α = 0.926, CR = 0.913, AVE = 0.678)</td>
<td>COM2</td>
<td>.849</td>
<td>.80</td>
<td>.64</td>
</tr>
<tr>
<td></td>
<td>COM3</td>
<td>.844</td>
<td>.83</td>
<td>.68</td>
</tr>
<tr>
<td></td>
<td>COM4</td>
<td>.746</td>
<td>.70</td>
<td>.56</td>
</tr>
<tr>
<td>CUST</td>
<td>CUST1</td>
<td>.869</td>
<td>.77</td>
<td>.60</td>
</tr>
<tr>
<td>(α = 0.869, CR = 0.855, AVE = 0.667)</td>
<td>CUST2</td>
<td>.837</td>
<td>.97</td>
<td>.94</td>
</tr>
<tr>
<td></td>
<td>CUST3</td>
<td>.634</td>
<td>.67</td>
<td>.50</td>
</tr>
<tr>
<td>EE</td>
<td>EE1</td>
<td>.916</td>
<td>.83</td>
<td>.70</td>
</tr>
<tr>
<td>(α = 0.940, CR = 0.909, AVE = 0.672)</td>
<td>EE2</td>
<td>.862</td>
<td>.96</td>
<td>.95</td>
</tr>
<tr>
<td></td>
<td>EE3</td>
<td>.815</td>
<td>.84</td>
<td>.71</td>
</tr>
<tr>
<td></td>
<td>EE4</td>
<td>.779</td>
<td>.60</td>
<td>.58</td>
</tr>
<tr>
<td></td>
<td>EE5</td>
<td>.722</td>
<td>.79</td>
<td>.62</td>
</tr>
<tr>
<td>INV</td>
<td>INV1</td>
<td>.939</td>
<td>.95</td>
<td>.91</td>
</tr>
<tr>
<td>(α = 0.801, CR = 0.969, AVE = 0.863)</td>
<td>INV2</td>
<td>.932</td>
<td>.91</td>
<td>.84</td>
</tr>
<tr>
<td></td>
<td>INV3</td>
<td>.930</td>
<td>.91</td>
<td>.83</td>
</tr>
<tr>
<td></td>
<td>INV4</td>
<td>.928</td>
<td>.96</td>
<td>.91</td>
</tr>
<tr>
<td></td>
<td>INV5</td>
<td>.920</td>
<td>.92</td>
<td>.83</td>
</tr>
<tr>
<td>ENV</td>
<td>ENV1</td>
<td>.888</td>
<td>.72</td>
<td>.60</td>
</tr>
<tr>
<td>(α = 0.901, CR = 0.829, AVE = 0.624)</td>
<td>ENV2</td>
<td>.778</td>
<td>.67</td>
<td>.55</td>
</tr>
<tr>
<td></td>
<td>ENV3</td>
<td>.770</td>
<td>.95</td>
<td>.90</td>
</tr>
<tr>
<td>REP</td>
<td>REP1</td>
<td>.93</td>
<td>.82</td>
<td>.68</td>
</tr>
<tr>
<td>(α = 0.887, CR = 0.913, AVE = 0.678)</td>
<td>REP2</td>
<td>.83</td>
<td>.87</td>
<td>.70</td>
</tr>
<tr>
<td></td>
<td>REP3</td>
<td>.90</td>
<td>.89</td>
<td>.80</td>
</tr>
<tr>
<td></td>
<td>REP4</td>
<td>.76</td>
<td>.71</td>
<td>.69</td>
</tr>
<tr>
<td></td>
<td>REP5</td>
<td>.74</td>
<td>.81</td>
<td>.66</td>
</tr>
<tr>
<td>FP</td>
<td>FP1</td>
<td>.92</td>
<td>.85</td>
<td>.72</td>
</tr>
<tr>
<td>(α = 0.835, CR = 0.902, AVE = 0.651)</td>
<td>FP2</td>
<td>.82</td>
<td>.81</td>
<td>.66</td>
</tr>
<tr>
<td></td>
<td>FP3</td>
<td>.82</td>
<td>.81</td>
<td>.66</td>
</tr>
<tr>
<td></td>
<td>FP4</td>
<td>.80</td>
<td>.89</td>
<td>.80</td>
</tr>
<tr>
<td></td>
<td>FP5</td>
<td>.67</td>
<td>.65</td>
<td>.58</td>
</tr>
</tbody>
</table>

*Source:* Author calculations
Figure 2  Measurement model (see online version for colours)

Source:  Author representation
Model fit results are presented in Table 3. CMIN is described as the minimum discrepancy and represents the discrepancy between the unrestricted sample covariance matrix S and the restricted covariance matrix. DF stands for degrees of freedom and P is the probability value. CMIN divided by the DF is considered as the better fit for the model as compared to individual value of CMIN. For model to be good this value should not exceed five. Comparative (CFI) and GFI of the model was 0.995 and 0.992 respectively, which were more than the recommended value of 0.90.

Table 3  Model fit results of measurement model

<table>
<thead>
<tr>
<th>Model</th>
<th>CMIN/DF</th>
<th>CFI</th>
<th>GFI</th>
<th>AGFI</th>
<th>RMSEA</th>
<th>RMR</th>
<th>PCLOSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Desired</td>
<td>&lt;5</td>
<td>&gt;0.90</td>
<td>&gt;0.90</td>
<td>&gt;0.90</td>
<td>&lt;0.08</td>
<td>&lt;0.05</td>
<td>&gt;0.05</td>
</tr>
<tr>
<td>Default model</td>
<td>4.671</td>
<td>0.995</td>
<td>0.992</td>
<td>0.912</td>
<td>0.076</td>
<td>0.043</td>
<td>0.067</td>
</tr>
</tbody>
</table>

Source:  Author calculations

The Adjusted Goodness of Fit Index (AGFI) was 0.912 as against the recommended value of above 0.90 as well. RMSEA was 0.076 and was also below the suggested limit of 0.05, and Root RMR was also below the desired value of 0.05 at 0.043. This can be interpreted as model explains the correlation to within an average error of 0.043. Thus, the overall model fit was good indicating that defined seven constructs fit the sample data.

After assessing the model fit of the measurement model, SEM and Path Analysis has been applied to test the various hypotheses. The values of all the seven constructs have been imputed using IBM SPSS AMOS 21. Employees, environment, customer, community and investors were run as second order CFA to impute the new variable, i.e., CSR. CSR was the interactive outcome of these five constructs, used to measure the relative strength of the firm’s CSR. Table 4 presents the estimation of association of stakeholders with CSR.

Table 4  Stakeholders’ measurement of CSR

<table>
<thead>
<tr>
<th>Associations</th>
<th>Standardised estimates</th>
<th>Hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>→ CSR</td>
<td>0.63*</td>
</tr>
<tr>
<td>Environment</td>
<td>→ CSR</td>
<td>0.58*</td>
</tr>
<tr>
<td>Customer</td>
<td>→ CSR</td>
<td>0.61*</td>
</tr>
<tr>
<td>Community</td>
<td>→ CSR</td>
<td>0.60*</td>
</tr>
<tr>
<td>Investor</td>
<td>→ CSR</td>
<td>0.70*</td>
</tr>
</tbody>
</table>

Note: *Significant at 5% level of confidence

Source:  Author representation

The results of stakeholder measuring model used to drive the CSR have concluded that all the stakeholders are significant in influencing the CSR decision making.

Results of the overall model fit statistics also indicated that model was an adequate fit. CMIN/df = 3.01; RMR = 0.04; GFI = 0.971; AGFI = 0.954; CFI = 0.986; RMSEA = 0.061 were the model fit statistics. The five predictors of CSR account for 69% of its variance, therefore, the construct adequately represents its proposed domain. Thus, on the basis of these results we fail to reject the H1, i.e., stakeholders contribute to the CSR decision making.
To test the last three hypotheses (H2, H3, H4) and to assess the presence of mediating variable using structural equation modelling, the procedure outlined by Baron and Kenny (1986), and Gerbing and Anderson (1998) was followed. It demonstrates that four necessary conditions should be met to fulfill the mediation requirements. First, the causal variable (CSR) must be significantly associated with the outcome variable (FP) in the absence of the mediating variable (REP). This is known as total effect, as it establishes that there is an effect that may be mediated. The second condition is that the causal variable (CSR) must be significantly associated with the mediating variable (REP). Hence, as per this step, mediating variables is treated as outcome variable. The third or last condition is that the mediating variable (REP) must be significantly associated with the outcome (FP). The step two and three gives the beta value which represents the indirect effect. Lastly, the final condition is that when the mediating (REP) variable is included, the direct relationship between the causal variable (CSR) and the outcome (FP) becomes significantly less (partial mediation) or negligible (full mediation, Step 4).

**Table 5** Mediation effect

<table>
<thead>
<tr>
<th>Effect</th>
<th>Beta</th>
<th>p-value</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total effect (Step 1)</td>
<td>0.73</td>
<td>0.001</td>
<td>Total effect is significant</td>
</tr>
<tr>
<td>Indirect effect (Step 2*Step 3)</td>
<td>0.68*0.65 = 0.442</td>
<td>0.001</td>
<td>Significant, mediation exists</td>
</tr>
<tr>
<td>Direct effect (Step 4)</td>
<td>0.35</td>
<td>0.051</td>
<td>Insignificant, Full mediation exists</td>
</tr>
</tbody>
</table>

Mediation model presented in Figure 3 have been tested for the presence of partial, full or no mediation effect. Results given in Table 5 concluded the presence of full mediation with respect to REP mediating the effect of CSR on FP. The most significant being investors followed by the employees. Both of them contribute the most towards firm’s CSR actions as they are believed to be directly involved with the organisational deeds. The association between CSR and REP (i.e., H2) was found to be existing and significant also.
Third objective was to analyse the relationship of REP and FP. The results also suggested REP has a positive influence on the FP of the firm, measured qualitatively by change in profit and change in sales revenue. Thus, H3 was failed to be rejected, i.e., reputation impacts FP.

Final hypothesis of mediating effect of REP on relationship of CSR and FP, have also been failed to be rejected. In order words, reputation fully mediates the relation between CSR and FP. If the company focuses on stakeholder centric CSR activities, then positive reputation is created which in turn leads to positive/incremental change in revenue and profit of the company as measure by FP.

5 Discussion

This study has been done to examine how the association between a firm’s engagements in CSR influences its FP. Specifically, the study investigated the performance implications of CSR practices targeting different stakeholder groups viz. investors, employees, customers, environment and community. The study then examined whether reputation acts as mediator between CSR and FP of the company.

The findings of the study state that the all the stakeholders are significant in CSR decision making of the company, with investors being most significant and followed by the employees. Both of them contribute the maximum towards firm’s CSR actions as they are believed to be directly involved with the organisational actions. These results confirm with the findings of Mandhachitara and Poolthong (2011) and Cho and Kim (2012). These studies have highlighted that customers and community shift their support to other firms in case they come across socially irresponsible actions of the firm. Since they are the public stakeholders, thus it is important for the companies to maintain their image as this positively influence the reputation of the company. Employees are considered as the best word of mouth source for the company CSR initiatives, thus if the employees are motivated and satisfied then they generate better performance indicators. These in turn work for CSR reputation of the company as well as positive implications for FP. The same has been emphasised by Masden and Ulhoi (2001), Rupp et al. (2006), that employees are critical in developing and implementing activities related to CSR and they also search for those companies who are socially responsible. These results are consistent with the studies of Fombrun and Shanley (1990), Lai et al. (2010), Neville et al. (2005), Du et al. (2010) and Hillenbrand and Money (2007). Hence, results confirm that, stakeholders centric CSR activities relating to employees, environment, community, customers and investors play a key role in building firm’s positive reputation (Minor and Morgan, 2011). This can help the managers of the firm to understand how the CSR initiative can be best directed towards increasing the firm’s reputation, which is due to positive word of mouth and socially responsible activities. Thus, leading to more market opportunities which in turn generate the change in profit and revenue (Du et al., 2010; Lai et al., 2010). Bertels and Pelozza (2008) have concluded that CSR contribute to a positive corporate reputation, which also confirms with our results. If the company focuses on stakeholder centric CSR activities, then positive reputation is created which in turn leads to positive/incremental change in revenue and profit of the company as measure of FP. The overall results of the study confirm with the findings of Brik et al. (2011) and Taghian et al. (2015). These studies have also concluded that CSR influence the business performance through reputation.
6 Conclusions

The present study was to measure the CSR as a variable derived from the stakeholders’ approach, i.e., employees, customers, environment, community and investor centric CSR activities. Structured equation modelling was done on the responses of 272 respondents focusing on all the perspectives of the CSR. It was concluded that employees and investors have the most significant impact on the CSR decision making followed by the environment, community and customers. The paper then focused on analysing the association between CSR and the Reputation of the company. It was concluded that CSR positively impacts the reputation. In other words, as the company work towards being employee centric and investor centric, then it positively impacts their reputation in the market. Study also focused on analysing the mediating role of Reputation on the relation of CSR and FP. Research concluded that reputation fully mediate the relationship between CSR and FP. Thus, it can be said that, if Stakeholder led CSR initiatives are taken then company would be successful in earning the positive reputation for the company and thus generating the positive change in profit and revenue.

7 Limitations of the study

No research is free from limitations as practical situations differ as compared to the theoretical conditions. The present research had two prominent limitations. First being the response rate of the study, which was low at 13.6%. However, as compared to existing researches in the same area, this is not an exception. Second being measurement of the FP. In the present study, FP was taken as the qualitative measure, i.e., respondents were only asked to indicate the direction of change in profit and sales revenue. Thus, no quantitative values were used to measure impact of CSR or reputation in FP.

8 Future scope of research

There is always scope for further research in existing studies. The present research focused only on India, thus future research can be carried on to analyse the differences, if any, across various countries. This is due to the fact that stakeholders’ influence as well as issues of concern may vary across various countries. Another vertical to this research could be to study the change in impact of CSR on reputation and FP, with the change in type of organisation or even industry. Also, there can be a possibility of change in composition of CSR with respect to different industries i.e. as some may have minimal societal impact, some may even have no impact and other may have maximum impact.

9 Implications of the study

The results of the study have relevant implications for the present discussion on the relationship between CSR and firm performance. The authors recommend that based on the expectations of its stakeholders, companies should implement their CSR programs as this shall enhance the FP of the company, because of its relationship with reputation. Thus, firms engage in CSR to satisfy different stakeholder groups. When budgets are
tight, managers may give higher priority to the CSR practices that have stronger effects on firm FP. The results of the study have social implications along with the findings, which are important because of the influence of the stakeholders on the FP of firms. As organisations explore ways to effectively engage stakeholders for mutual benefit, this research shows how firms can have a positive impact.

References


