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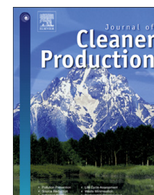

The influence of corporate social responsibility practices on organizational performance: evidence from Eco-Responsible Spanish firms

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ABSTRACT

Although corporate social responsibility is a potential driver of a company's organizational performance, previous studies on the relationship between corporate social responsibility and performance have provided conflicting results mainly by two reasons. On the one hand, non-financial outcomes of corporate social responsibility (i.e. corporate reputation, increased employee motivation and customer satisfaction) have been ignored. On the other hand, the potential mediating effect of innovation in the corporate social responsibility–performance relationship has not been taken into account. This study fills in an important gap by analyzing the impact of corporate social responsibility practices on a measure of organizational performance encompassing both financial and non-financial indicators, and by studying the potential mediating role of innovation in the corporate social responsibility–performance relationship. By using the structural equation modelling approach for a sample of 133 Eco-Responsible Spanish companies (mostly, small and medium-sized firms), results provide evidence of positive and significant direct effects of corporate social responsibility on both innovation and organizational performance across all groups of companies (i.e. manufacturing vs non-manufacturing, proactive vs non-proactive, smaller vs larger and younger vs older firms). Results also find a mediation role of innovation for the case of manufacturing companies.

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1. Introduction

In recent years an outstanding number of initiatives around the concept of corporate social responsibility (CSR) have emerged as a direct response to the increased awareness of the public on societal and environmental issues. CSR is "*a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis*" (European Commission, 2001). The purpose of CSR is to make corporate business activity and corporate culture sustainable in economic, social and ecological aspects. The economic dimension considers the direct and indirect economic impacts that the organization's operations have on the surrounding community and on the company's stakeholders. The social dimension refers to the management's obligation to make choices and take actions that will contribute to the welfare and interests of the society as a whole while the ecological dimension deals with the actions undertaken by the company to preserve the environment.

At the same time as firms are becoming increasingly committed to issuing sustainability reports (Du et al., 2011), a number of national and international bodies have developed frameworks so as to provide them with guidance on disclosing CSR information. Some examples of these guidelines can be found in the GRI Guidelines (2011, 2013), the ISO 26000 Guidance on Social Responsibility (2010), the World Business Council for Sustainable Development Guidelines (WBCSB, 2002) and the Institute of Social and Ethical Accountability Guidelines (AA1000, 2008).

Although CSR is a potential driver of a company's organizational performance, previous studies have shown conflicting results concerning the relationship between corporate social performance (CSP) and corporate financial performance (CFP) (e.g. Orlitzky et al., 2003; Allouche and Laroche, 2005; Callan and Thomas, 2009). Some studies have shown a positive relationship between CSR and financial performance (Johnson and Greening, 1999; Waddock and Graves, 1997), whereas others have revealed a negative

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relationship (Bromiley and Markus, 1989; Davidson and Worrell, 1988). Despite the prolonged efforts to demonstrate a positive relationship between CSR and business performance, research is still largely inconclusive, due to the lack of consistent and reliable measures of social performance, or misspecified models in which variables that may mediate or moderate the relationship are omitted (Surroca et al., 2010; García-Castro et al., 2010). As McWilliams and Siegel (2000) and Surroca et al. (2010) evidence, this lack of consensus might reflect model specification problems, such as the omission of variables related to innovation. In spite of the fact that innovation has been viewed as a means of understanding the impact of CSR on organizational outcomes, few, if any, studies have considered the ways in which innovation mediate the relationship between CSR and both financial and non-financial outcomes (Lockett et al., 2006).

Another plausible explanation for the conflicting results in the CSP–CFP relationship is that CFP is focused on the companies' short-term financial results while social responsibility initiatives are more long-term oriented and potentially reflected on qualitative non-financial indicators (e.g., customer satisfaction, brand image and corporate reputation, employees' motivation, quality of products or services, etc.). In fact, the exclusive use of financial performance (FP) indicators in order to measure organizational performance has been long criticized based on the following arguments (Amir and Lev, 1996; Ittner and Larcker, 1998): *a)* short-termism (i.e. linking rewards to FP may tempt managers to make decisions that will improve short-term FP but may have a negative impact on long-term profitability); *b)* internal focus (i.e. FP measures tend to have an internal focus neglecting other important external factors needed to compete successfully such as customer satisfaction); *c)* manipulation of results (i.e. FP measures based on accounting data are easily manipulated by managers reducing their reliability); *d)* omission of intangible drivers of company value (i.e. the use of FP indicators has limited benefit to the company since they do not convey the full picture regarding the factors that drive long-term success and maximisation of shareholder wealth, e.g. customer satisfaction, ability to innovate, quality, reputation and brand image or employee motivation); *e)* backward-looking (i.e. FP measures are not forward-looking, which is not suitable in today's dynamic business environment). In this respect, qualitative non-financial indicators can be useful to complement financial parameters.

It should be added that existing research on this topic has mainly focused on large companies, with very limited discussion of Small and Medium-sized Enterprises (SMEs), despite of the fact that SMEs represent more than 99% of the overall number of companies in Europe (European Commission, 2014). This can be explained, in part, because CSR governmental initiatives worldwide have focused predominantly on large firms. Some exceptions of papers dealing with SME engagement in CSR are those of Castka et al. (2004), Jenkins (2006), Murillo and Lozano (2006), Davies and Crane (2010) and Morsing and Perrini (2009). This lack of research stems also from a flawed argument that CSR theory can simply be scaled down to 'fit' to SMEs. However, due to the unique characteristics of SMEs, more empirical evidence is needed in order to assess whether the beneficial practices documented in large companies can be transferred to SMEs.

In this context, this study tries to fill in the previous research gaps by analyzing the impact of CSR practices on a measure of organizational performance comprising both financial and non-financial indicators for a sample of 133 Eco-Responsible Spanish companies located at the Murcia Region (mostly, SMEs). The CSR dimensions are measured using the Elkington's (2004) concept of the triple bottom line. Elkington (2004, p.3) describes the triple bottom line as "*an inevitable expansion of the environmental agenda that focuses corporations not just on the economic value that they add, but also on the environmental and social value that they add – or destroy*". This paper also examines the mediating effect of innovation on the CSR-performance relationship since some studies indicate that innovation might be a missing link to explain relationships between CSR and performance (McWilliams and Siegel, 2000; Surroca et al., 2010). In this way, the surplus of this study is the explicit consideration of the potential mediating role of innovation in the CSR-performance relationship, an aspect that has been neglected in previous research focused on the Spanish context (e.g., Marín et al., 2012).

The structure of the paper is as follows. The next section outlines the background and hypothesis development as well as the conceptual model to be tested. The third section presents the research design (sample and data collection, and measurement of constructs). Next, the results obtained in the empirical analysis are reported. Finally, the authors discuss the theoretical and managerial implications of the paper.

2. Background

2.1. The influence of CSR on organizational performance

Many researchers have developed scales to measure organizational performance or effectiveness. Traditionally, authors have considered financial measures, such as sales growth, return on equity, net profit after taxes, productivity or return on assets (Richard et al., 2009). In recent years, scholars have placed their focus on advocating for and developing more comprehensive, multi-dimensional qualitative-based frameworks of organizational performance, emphasizing that a concept as complex as organizational performance may be more appropriately captured through a multidimensional framework than through a single construct (Quinn and Rohrbaugh, 1983; Rojas, 2000). Regarding this, Quinn and Rohrbaugh (1983) gain insight into the dimensions within organizational performance by explaining four separate models of organizational performance (i.e. human relations, open systems, rational goals and internal processes).

As indicated by Quinn (1988), the *human relations model* places a great deal of emphasis on flexibility and internal focus, cohesion and morale, and human resource development being operationalized by aspects such as employees' motivation and turnover and labour absenteeism. Meanwhile, the *open system model* is laid down on flexibility, external focus, growth and resource acquisition. Aspects such as customer satisfaction, the speed of adjustment to the changeable needs of the markets and the brand image and corporate reputation are relevant under this model. The *rational goal model* emphasizes control and external focus, and stresses the effectiveness criteria shown in planning and goal setting and productivity and efficiency. This model is evaluated according to measures such as market share, profitability and productivity. Finally, the *internal process model* is focused on control and internal focus, giving high importance to the role of information management and communication and considering stability and control as the main points. This model is operationalized using measures such as the improvement in the quality of products/services, coordination of internal processes and organization and coordination of human resources.

Based on the work of Quinn and Rohrbaugh (1983), researchers have considered not just financial measures (e.g., ROE, sales growth, profits or productivity) but also non-financial measures (e.g. customer satisfaction, corporate reputation, employee satisfaction, the quality of products or services and human resource management) as equally critical in determining organizational performance (see Black and Lynch, 2001; Capelli and Neumark, 2001; Dowling, 2002; Wiklund and Shepperd, 2003; Wade and Hulland, 2004; Smith, 2005; Helm, 2007; Lakhal and Pasin,

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