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Interaction impacts of corporate social responsibility and service quality on shipping firms' performance

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ABSTRACT

The interaction impacts of corporate social responsibility (CSR) and service quality (SQ) on customer satisfaction, job satisfaction, and financial performance are investigated in the context of shipping. Interviews were conducted, and surveys were administered on 156 shipping firms with operations in Singapore. The collected data were analysed using structural equation modelling. The results showed that: (1) customer and job satisfaction fully-mediate the link between corporate level associations (i.e. CSR and SQ) and shipping firms' financial performance; (2) CSR and SQ complement each other in driving job and customer satisfaction; (3) the interaction between CSR and SQ produces synergistic effects on customer satisfaction but compensatory effects on job satisfaction. The results suggest that the decision to implement CSR is contingent on the motivation of a firm as well as its current SQ capability. This paper contributes to the literature by reconciling the conflicting views on managing SQ performance and corporate social performance based on stakeholder theory, economic theory of complementarities and perceived value theory.

1. Introduction

In view of rising competition and demand for green or socially responsible services, shipping firms are inclined to implement corporate social responsibility (CSR) and service quality (SQ) concurrently in an attempt to boost their business performances (Lagoudis et al., 2006; Shin and Thai, 2015). There is sufficient evidence to show that delivering superior quality in shipping services leads to a chain of organisational benefits such as customer satisfaction, customer loyalty, and improved financial performances (Cheng and Choy, 2013; Panayides, 2003; Yuen and Thai, 2015). However, the relationship between CSR and a firm's financial performance has been mixed and subjected to numerous debates (Drobetz et al., 2014; Margolis et al., 2009). The key objective of this study is therefore to examine the interactions between CSR and SQ, and their effects on performance outcomes through the theoretical lenses of stakeholder theory, economic theory of complementarities and perceived value theory.

Scholars who are averse to CSR practice argued that CSR dilutes the primary purpose of conducting businesses and drains valuable resources from an organisation as it confers little financial benefits (Friedman, 2007). Sprinkle and Maines (2010) pointed to opportunity costs that are often neglected by existing correlational studies and argued that this would result in erroneous and inflated positive correlations. Hong et al. (2012) drew attention to financial expenditure on CSR disclosure alone that equates to hundreds of millions in the US which would outweigh or negate the finite contribution of CSR.

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On the other hand, scholars who favour the practice of CSR argued that there are financial benefits if CSR was managed strategically and not altruistically (Husted and de Jesus Salazar, 2006). Chang and Yeh (2016) proposed that practising strategically-chosen CSR activities contributes to firms' competitive advantages and creates synergistic value for the stakeholders. Similarly, Lin and Wong (2013) found that shipping companies are generally strategically or economically motivated in their CSR implementation; for example, the implementation of environmental activities tend to be primarily motivated by cost-saving potential. On the other hand, the effectiveness of mitigating environmental impacts is secondary considerations for shipping companies. As highlighted by Husted and de Jesus Salazar (2006), such economic-centric implementation of CSR activities do nevertheless result in greater social and environmental outputs.

In response to the rather mixed association between CSR activities and a firm's financial performance, recent studies have introduced mediators and contingencies to their analyses (Carroll and Shabana, 2010; Yuen et al., 2017a). For instance, Barnett and Salomon (2012) found that the effect of CSR activities on a firm's financial performance is contingent on stakeholder influence capacity which was defined as a firm's ability to identify, respond to, and profit from opportunities to improve stakeholder relationships through CSR. In another study, Yuen et al. (2016b) found that the relationship between CSR and a shipping firm's business performance is contingent on its continuous improvement capacity and the pace and consistency of improvement.

The recent literature has provided a better nomological understanding of the relationship between CSR and a firm's performance, and some explanations to its mixed results. However, the existing literature has not probed into the possibility of whether CSR complements or trades off with other resources of a firm. The degree of congruency between CSR and these resources can explain the mixed results found between CSR and a firm's performance. According to the economic theory of complementarities, synergy or trade-off can arise from the interaction between a firm's resources. Synergy is generated when the resources are mutually-reinforcing whilst trade-off is generated when the resources are conflicting. This study focuses on the interaction between CSR and service quality (SQ). The latter is selected as it has been a critical resource in influencing a firm's performance. In particular, this study examines the complementarities of CSR and SQ, and investigates their effects on a firm's performance which include customer satisfaction, job satisfaction, and financial performance.

In this study, the shipping industry is chosen as the unit of analysis due to the mounting pressure exerted by the regulators, customers, and public to practice CSR (Fafaliou and Aroni, 2016; Yang, 2018). The shipping industry is often criticised for being a laggard in implementing social and environmental initiatives (Yuen and Lim, 2016). Hence, this study can provide timely insights into shipping firms' pursuit of superior financial performance. Shipping firms invariably encounter trade-offs in deploying scarce organisational resources, particularly, in their decisions to invest in CSR which can improve overall stakeholder satisfaction, or to invest in SQ which can strengthen their existing logistics capabilities. Such either-or decision is aggravated by shipping firms competing on all segments of business operations simultaneously, i.e. in shipping markets to sell their services, in labour markets to attract and retain quality seafarers and shore-based talents, and in financial markets to attract investors. It is thus important to understand how investments in CSR and SQ contribute to performance outcomes relating to the key aspects of customer satisfaction, job satisfaction, and financial performance.

Through this study, several important questions in relation to the strategic management of shipping firms can be addressed, one of which concerns trade-offs. For example, can a shipping firm that delivers superior quality services compensate for its low involvement in CSR? Conversely, can a shipping firm that is highly involved in CSR compensate for its lacklustre service quality? This study also examines whether synergies can be realised from the performances of both SQ and CSR on the bases of job satisfaction, customer satisfaction, and most importantly, financial performance.

The remaining parts of the paper are organised as follows. First, the independent as well as interaction effects of SQ and CSR on performance outcomes are reviewed and specified, followed by a discussion on the methods employed for data collection. Subsequently, the hypotheses of this study are tested using structural equation modelling. Finally, the results as well as the implications are discussed. The limitations of the study and recommendations for future research are also presented.

2.0. Theoretical framework

This section is divided into four parts. The first part (Section 2.1) discusses the independent effect of SQ on shipping firms' performance, which includes customer satisfaction, job satisfaction, and financial performance. The second part (Section 2.2) discusses the independent effect of CSR on shipping firms' performance. The third part (Section 2.3) elaborates the relationships between shipping firms' performance. Finally, the fourth part (Section 2.4) discusses the interaction effects of SQ and CSR on shipping firms' performance.

2.1. The effect of SQ on shipping firms' performance

SQ is a measure of corporate capability and is defined as customer assessment of the overall excellence or superiority of a service (Parasuraman et al., 1988). This assessment involves a comparison of customer expectations with customer perceptions of a service performance. Since SQ is an abstract construct which comprises both technical outcomes and functional processes (Grönroos, 1984), it is often decomposed into observable dimensions for customer evaluation. The content of these dimensions were noted to vary across contextual factors, which include the types of industry (Ladhari, 2009).

In the context of the shipping industry, SQ can be viewed as a differentiation strategy that differentiates a shipping firm from its competitors (Lobo, 2010). The bases or dimensions for SQ differentiation are logistical due to the nature of the industry (Tuan, 2012). These include time-related logistics performances, customer service experience, and safety and security of shipments (Thai et al.,