Theoretical Linkage between Corporate Social Responsibility and Corporate Reputation

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Abstract: In today’s corporate world, Corporate Social Responsibility (CSR) is becoming a significant field of study for all businesses as its notion has increased attention of both academics and practitioners. Secondary sources of data are utilized using document analysis method to understand the relationship between Corporate Social Responsibility (CSR) and corporate reputation (CR). Five papers are selected from Science Direct which covers the time frame of 2012 until 2017. Evidence indicates that there is a positive, direct and significant relationship between CSR and CR. This paper contributes to the understanding of interrelations between CSR and CR. Practitioners can use the result of this study as a foothold to strengthen the integration of CSR and take advantage of synergies between CSR and CR. The value of paper resides in making this rather under-researched literature on the relationship between CSR and CR be more accessible for both scholars and practitioners.

Keywords: corporate social responsibility, corporate reputation, stakeholders.

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Introduction

In the era of globalization, corporations often earn an economic profit that can contribute to the society (Jones et al., 2017). However, at the same time corporations cause environmental damage which society will often suffer due to the unethical actions were taken by the corporations. Along with the increase in the unethical and irresponsible behavior of corporations, Corporate Social Responsibility (CSR) is gaining popularity in the 21st century and receiving high attention from both academics to practitioners across the world. CSR is not only focusing on doing the right business but also emphasizes on doing the business responsibly in the dynamic environment where the opportunities and threats exist. Some corporations perceived CSR as an essential tool to improve their corporate reputation (Zhou et al., 2012). Nowadays, it is a well-recognized fact that corporations cannot ignore CSR as it ensures sustainability for the long-term in its market and industry. Thus, CSR is becoming a catchphrase of the new millennium in the corporate world as companies that are involved in CSR strive to meet the expectations of stakeholders (Asmeri et al., 2017).

In a highly competitive business environment, financial success has become a benchmark for corporations in measuring a successful business (Honggowati et al., 2017). It has been illustrated that new
strategies are requested from the corporation to demonstrate their ethical standards when the traditional foundations of business ethics fail. CSR has become a fundamental corporate issue to build Corporate Reputation (CR) over time, Maden et al. (2012) argued that corporation is competing in reputational status to meet the expectation from multiple groups of stakeholders as stakeholders make decision mainly based on the organization’s reputational status.

Corporations that can implement good CSR strategy may result in good CR. Furthermore, some scholars argued that the effects of CR can result in the positive behavioral outcome of multiple groups of stakeholders that can contribute to the better performance of the corporation. Thus, the corporation should not only take account of the interests of shareholders but also consider all stakeholders’ interests.

Although reputation is an intangible benefit, research universally demonstrated that good CR is capable to provide a sustained competitive advantage and increase corporate’s worth (Asemah et al., 2013). By having a good CR among its major stakeholders such as suppliers, largest customers or opinion leaders in the business community, a corporation can achieve its objectives more easily and efficiently than others competitors within the same industry.

However, there is much research conducted to analyze the reasons and importance of CSR. Nonetheless, the stream of academic research focused on exploring and clarifying the relationship between CSR activities and CR from the theoretical framework is still relatively small. Thus, the focus of this study is on the relationship between CSR and CR from a theoretical framework perspective. The study carefully explores whether the CSR is linked to the CR by providing contrasting arguments of theories and empirical evidence.

CSR is a topic that is increasingly capturing people’s imagination and interest in the business world (Gunardi et al., 2016). Unfortunately, there is no consensus definition of CSR as it has suffered contradiction and numerous characterizations (Garriga & Melé, 2004). The CSR concept began in the 1920s but failed to become a concerning topic amongst the business leaders due to the World War II and Great Depression. Nijhof & Jeurissen (2010) stated that CSR found itself in the spotlight in the 1950s when an article published in the Harvard Business Review from the chairman of Standard Oil of New Jersey, Frank Abrams who stated that businesses must conduct corporations’ affairs in a workable balance and equitable manner.

CSR has become a major research topic from 1950 onwards, and thus a wide variety of definitions and connotations exist. For instance, the prominent and earliest definition of CSR was from Howard Bowen. He advocates that people in business must make decisions which are favorable regarding the objectives and values of society (Hamidu et al., 2015). Another definition of CSR is the World Business Council for Sustainable Development who define CSR as the commitment of the corporations to behave morally and contribute to the development of country’s economy while increasing the life quality of the communities and workforce at large (Mukasa et al., 2015).

According to the Journal of International Social Research which stated that CSR means strategies of the company to conduct business which beneficial to community in a society friendly and ethical way (Ismail, 2009). However, following the definition from European Commission, CSR is defined as the voluntary integration of social as well as environmental concerns in the daily business operations of the corporation and the interaction with their stakeholders (Benoit-Moreau & Parguel, 2011). Horrigan (2010) argued that there be no widespread definition of CSR as it is a very controversial topic which contains a high level of ambiguity. Indeed, CSR comprises some corporate activities that take account of social, environmental and ethical responsibilities.

Carroll proposed a four-part definition of CSR in term of responsibilities in 1979. There are four types of responsibilities that included economic responsibilities, legal responsibilities, ethical responsibilities and philanthropic responsibilities. Carroll (1979) argued that corporations willing to engage in Corporate Social Performance (CSP) must have basic knowledge regarding CSR’s definition, understand the social responsibility’s issues that existed as well as have a specification of the philosophy of responsiveness toward
the particular issue. However, Carroll revised his four-part definition of CSR in 1991 (Carroll, 1991). He provided some significant meaning for the debate that if the CSR’s definition is adequately addressed, the entire scope of responsibility in a pyramid construct that the corporations are required to perform. According to this pyramid, the basic foundation consists of economic responsibilities while the apex is philanthropic responsibilities.

In addition to legal responsibilities, society demand corporations to conduct their business ethically. Ethical responsibilities state that corporations are required to obey the moral principles of right or wrong behavior in the society. Carroll (1991) advocates the corporations need to perform in a right manner which is consistent with the ethical norms and societal expectations. Some scholars argued that laws and regulations be compulsory for the CSR’s fulfilment (De Schutter, 2008).

**Methods**

The author employs secondary source and systematically reviews past literature that covered both CSR and CR with no date exclusions to understand how the literature explains the relationship between CSR and CR. Furthermore, a total of 5 articles were selected mainly from Science Direct which covered the time frame of 2012 until 2017 to confirm that this research topic is relatively new and under-researched. On the other hand, in-depth readings of these main articles revealed the theories applied to understand the relationship between CSR and CR as well as how CSR is capable of building CR. Empirical evidence was also used to prove such relationship. Theoretical approaches were used to explain the relationship between CSR and CR.

**Results and Discussion**

An effective CSR requires careful and intensive investment on the part of the corporation (Polonsky & Jevons, 2009). Corporation not only required to engage CSR activities in a socially responsible way, but they also need to understand how their stakeholders perceived their activities. Nijhof & Jeurissen (2010) stated that to embed CSR into a corporation, it is essential to combine this direction with economic constraints, to personal and collective ethical values, and to incorporate these values into business decision making.

Moreover, long-term commitment to CSR activities required senior management support, taking into account the salient issues of various stakeholder groups in the various markets (Polonsky & Jevons, 2009). (Sontaitė-Petkevičienė, 2015) also argued that corporation must have sufficient resources to support CSR activities and measure performance. These resources are also essential for changes in the CSR underlying issues, changes in expectations of stakeholder groups and effective monitoring development of corporate activities. Thus, it is required for effective communication between all of this, whether it be in annual reports, advertising or ongoing stakeholder dialogue.

As discussed in the previous section which had mentioned that Carroll (1999) suggest that corporation must take consideration of economic, legal, ethical and philanthropic activities to be a socially responsible corporation. Epstein (2008) highlight that there are nine areas that CSR must be concentrated that included governance, ethics, financial return, transparency, employment practices, environmental protection, business relationship, community involvement and product value. However, according to the Salmones et al. (2005), the dimensions of CSR are ethical-legal, economic as well as philanthropic responsibility.

Past literature lacks a common and precise definition of “reputation” construct because both academic and scholar adopt it differently or even contradictory definition among them (Barnett et al., 2006). Dowling (2004) argued that CR be an overall rating that indicates the impression of people toward the business of the particular corporation. Fombrun (1996) argued that CR concerns to the corporation’s perceptual
representation of the past, present and prospects that define the general appeal of the corporation to the stakeholders. On the other hand, George et al. (2012) demonstrated that CR could be directly related to the identity of the corporation and it is interpreted as the corporation’s values, ethos, goals that can create a sense of belonging to the stakeholder groups.

However, the CR concept also has been defined in various disciplines. For instance, in economics, CR is illustrated as the reflection of the corporation’s past activities that can provide a signal about its probable future actions to its stakeholders (Davies et al., 2003). In strategic management, Smajzlene & Jučevicius (2009) claim that CR is defined as collective impression about a corporation’s derived from its multiple stakeholders and viewed as an intangible asset which is hard to imitate. In the sociology discipline, CR is considered as a phenomenon that represents the collective agreement regarding the relevant public knowledge about an actor (Shamma & Hassan, 2009). While in the discipline of marketing such as marketing relationship and marketing strategy, reputation is demonstrated as a motivation that can attract consumers, influence buying-selling process as well as it is often viewed as the corporate associations that individuals establish with the corporation’s name (Davies et al., 2003).

An integrative definition of reputation was constructed by defining it as corporates collective presentation of past result of their action that describes the corporation’s ability to deliver various stakeholders (Fombrun & Riel, 1997). CR determines the relative position of corporation both externally with its stakeholders and internally with its employees within its competitive and industrial environments. Mukasa et al. (2015) stated that one of the foundations of reputation is the perceptions of the stakeholders about the corporation. Therefore, CR depends on the ability of a corporation to satisfy as well as meet their stakeholders’ expectations about a particular attribute.

One of the valued intangible assets of a corporation is its reputation. The confidence and the trust of the stakeholders can have a profound and direct influence on the bottom line of a corporation. The increasing pressure from multiple groups of stakeholders such as employees, consumers, investors and society can drive corporations to behave ethically and socially responsible which can be noticed in the present business environment. Under such phenomena, Danciu (2016) found that CR is becoming more important than ever for every business to remain competitive.

The way that the corporation operates their business and the actions were taken by the corporation can affect CR. Thus, CR becomes a factor of trust towards the corporation as it can serve as a guarantee of quality, content, process as well as products and services. However, the social, economic and environmental performance of corporation is an important driver of CR. Corporations are encouraged to engage in activities or programs aimed at improving the life quality and well-being of communities to build and enhance their positive reputation, all these being known as CSR. Therefore, Fombrun & Shanley (1990) assert that CR is one of the important aspects that moves along with CSR.

Grounded in stakeholder theory, Freeman argued that corporation should not only consider the interest of shareholders but also take account of stakeholder’s interest (Stieb, 2009); (Rokhmawati et al., 2017). The stakeholders can be defined as any group or individual who can affect or affected by the decision of the corporation (Laplume et al., 2008); (Rokhmawati & Gunardi, 2017). Any corporation’s success lies in the extent to which the corporation is capable of handling and dealing relationship with its stakeholders. According to the systematic review of Walker (2010) on CR, theories those are most commonly applied are an institutional theory, signaling theory and resource-based view.

Drawing on institutional theory in the reputation studies, Deephouse & Carter (2005) argued that this theory be used to shed light on how corporation gain their cultural support and legitimacy in their institutional environments to build CR. Furthermore, Rindova & Fombrun (1999) found that reputation can result from social influence and information exchanges among interaction of various parties within corporation context.
For instance, many scholars suggested that the essential ingredient to building the relationship with stakeholder is mainly through communication. Coebergh (2011) argued that corporation has the responsibility to engage with stakeholders because they hold power to affect the achievement and outcome of the corporation. van Riel (2000) observed that corporation could create understanding, awareness and appreciation for its strategic goal via communication, ideally resulted in satisfaction of interest for both corporations as well as the environment which transforms into CR. Public awareness to preserve the environment can be achieved through enforcing regulatory requirements (Khoiruman & Haryanto, 2017).

With a different focus, another theory used in the reputational studies is signaling theory. Signaling theory explain how the corporation’s strategic actions and choices can provide signals, which in turn used by multiple groups of stakeholders to build corporate’s impression (Basdeo et al., 2006). For instance, Thorne et al. (2014) stated that one of the signaling means is CSR disclosure, where the corporation willing to disclose more information about CSR than mandatory required by laws and regulations to signal that they are much better than others. Toms (2002) found that disclosing, monitoring and implementing environmental policies and corporation’s disclosure in their annual report potentially contribute to the creation of CR on environmental aspect. Thus, signaling theory is particularly instrumental in how reputation can be influenced by a corporate social performance that highlights the CSR of corporations (Walker, 2010).

Moreover, the next theory which has been incorporated into reputation studies is a resource-based theory (Maden et al., 2012). Branco & Rodrigues (2006) suggest that resource-based theory is used to understand the reason behind the engagement of corporation in CSR disclosure and activities. Maden et al. (2012) argued that this theory is taking a resource-based view that considers reputation as a rare and valuable resource which can provide a sustained competitive advantage. From the resource-based perspective, CSR can provide internal as well as external benefits or both. By engaging in CSR activities, a corporation can gain CR as external benefits, and they can attract better employees or increase morale, motivation, loyalty or commitment of current employees (Branco & Rodrigues, 2006).

Khan et al. (2013) indicated that there is a positive relationship between CSR and CR. Besides, Šontaitė-Petkevičienė (2015) also proves that both CSR and CR are positively correlated. For instance, Husted & Allen (2007) suggest that CSR value positively affect the reputation of the corporation through CSR activities such as building products awareness in customer and various groups of stakeholders. Roberts (2003) mentioned that good reputation could increase the corporation’s value on how it acts and states while poor reputation significantly depreciates the products and services’ value of a corporation. Indeed, Husted & Allen (2007) highlighted that good CR is difficult to replicate which can potentially create value for the corporation. Aksak et al. (2016) demonstrated that there is a strong link between CSR and CR based on the public relations perspectives and thus CSR is argued to be an important component of CR.

Several scholars have investigated the outcome and result of the CSR. CR can be considered as a relevant outcome of CSR as enhancing CR can act as an extrinsic motivation for corporations to engage in CSR activities (Maden et al., 2012). Mukasa et al. (2015) pointed out that continued participation of stakeholder incorporation’ activities of CSR can produce positive reputation results. This argument is supported by Brammer & Millington (2004) who found that CSR is the main component of CR that can build the goodwill and trust among the stakeholder groups. Also, CSR activities can affect the purchasing decision made by the consumers. Castaldo et al. (2009) reported that several surveys found customers are affected by the corporation’s CSR activities when choosing products or services. According to the Park et al. (2014), philanthropic and ethical CSR activities may foster and create customers’ belief that corporations care about the well-being of society and adheres to high ethical standards which resulted on positive CR in consumer’s assessment.

However, Aksak et al. (2016) argued that there be an inconsistency between CSR and CR. Hansen et al. (2008) found that positive CR potentially increases consumer purchase intention and their perceived value by
leading consumers that the benefit of the purchased products and services are comparatively good. Additionally, consumers feel highly satisfied with the product they purchased or service they received as consumers infer higher quality or value from good reputation corporation (Walsh & Beatty, 2007). According to Walsh et al. (2006), consumer’s loyalty to the corporation can be increased through good CR. Furthermore, Cable & Turban (2003) demonstrated that an affiliation with a reputable corporation enhances the self-esteem of employees and Helm (2011) agreed that this positively affects the social identity of employees as well as increases job satisfaction of them. Meanwhile, employees feel more committed to their corporation when they are affiliated with a more prestigious corporation Helm (2007). Moreover, the findings of Srivastava et al. (1997) show that potential or current investors perceived a well reputable corporation as a less risky investment than a corporation which provides an equivalent financial performance but with less favorable reputation.

Research on the relationship between CSR and CR has evolved to include empirical evidence to test the reliability of the connection which CSR positively affects CR. Navarro (1988) argued that CSR activity including charitable contributions enhance CR among its stakeholders. Moreover, Lev et al. (2010) demonstrated that investing in charity resulted in positive CR and goodwill with key stakeholders. According to the study on eBay sellers conducted by Elfenbein & McManus (2010) found that charity-linked products are more preferred by consumers which bringing benefit to the particular corporation. Also, Wartick & Cochran (1985) argued that CR has a positive association with the rate of charitable donations.

On the other hand, Mukasa et al. (2015) investigated Korean firms which found that a fundamental element of CSR in the assessment of corporation’s attractiveness is its environmental activities which include the reduction in toxic emissions. Implementation of CSR strategies in term of toxic reduction can improve CR as increasing expectations of stakeholders’ interest in surrounding environment where the business operates can put pressure on the environmental responsibility of corporation (Oeyono et al., 2011).

In Pakistan, CSR is at initial stages where many corporations are starting to become aware of the phenomenon. Yawar (2009) indicated that more than 60% of Pakistan’s corporation has contributed to the community development, donations and charity for the religious or humanitarian purpose. Besides, Ali et al. (2010) argued that most of the corporations in Pakistan have conducted the CSR activities because of the immense competition and globalization. Therefore, socially and environmentally responsive corporation have been regularly awarded in Pakistan which in turn improve their CR (Khan et al., 2013).

**Conclusion**

Corporate Social Responsibility it is a way for a corporation to show their responsible attitude towards the social, economic as well as environmental around the world. The corporation will not only benefit themselves from engaging in the CSR activities while it also benefits the whole society. It is crucial for a corporation to recognize how their CSR activities can build a reputation. This study concludes that CSR is one of the important drivers for CR as the findings indicate that there is a positive relationship between CSR and CR. Institutional, signaling and resource-based theories are used to provide a deeper understanding of the relationship between CSR and CR. The study has found the behavioral outcome of multiple groups of stakeholders. Good reputation of corporation signals its reliability in all market transactions, and such a good CR enhances not only the loyalty intentions but also the levels of commitment which subsequently building a positive worth-of-mouth. This study is limited to the theoretical discussion, and limited amount of empirical evidence are discussed that validate of the relationship between CSR and CR. Despite theoretical approaches and some empirical evidence are carefully established and explained, this study omitted some variable issues that should not bias study results significantly. Some new lines of future study are proposed to overcome these limitations. Future studies
could explore variable issues to extend the theoretical framework of this study. Lastly, new research on this topic could contribute in explaining the contradictory findings in past literature.

**References**


