

Impact of Corporate Social Responsibility on Firm Performance: The Mediating Role of Innovative Performance

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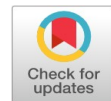
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Abstract: In recent times corporate social responsibility has been regarded as an important element as it promotes customer relationships and innovations within organizations. The purpose of this study was to analyze corporate social responsibility and its effect on innovative performance and consequently on firm performance. Furthermore, this research provided the empirical evidence about the mediating role of innovative performance in the relationship between corporate social responsibility and firm performance. The study was conducted in the textile industry of Pakistan. Quantitative technique was deployed to collect data from 308 textile industry's workers through questionnaires. Respondents were selected through convenient sampling technique. Data was analyzed using Statistical Package for Social Sciences. Hypotheses were tested through regression analysis. The results indicated that the relationship between corporate social responsibility and firm performance is mediated by innovative performance. The study yielded theoretical underpinning for researchers and managerial implications for the textile sector.

Keywords: Corporate social responsibility, Innovative performance, Firm performance

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INTRODUCTION

In the last few decades companies intensely focused a new idea of mutual social understanding. This term specified by the companies is regarded as 'Corporate Social Responsibility' (CSR). CSR is a long term commitment that firms undertake to promote economic development and to carry forward unimpeachable activities while working for the betterment of the working team along with their families and community (Baumgartner, 2014; Khattak et al., 2021). CSR not only affects the organization's management, its production and commercial exercises, but also its relationship with other organizations. Thus the focal approach of CSR is that business organizations have an obligation to work towards meeting the requirements, interests and desire of staff members, their families and the local society (Clarkson, 1995; Waddock & Gaves 1997).

The CSR is a visible indicator as a source of increment due to viable strategic policies. And so is the role of culture that plays a crucial role in enhancing economic output and inviting new ideas (Maier, 2016; Fatima, Majeed, & Saeed, 2017). Until the stakeholders are actively involved to shoulder their responsibilities in serving the state, the society would really lag behind to show any sign of development and strengthen the economy. This is also highlighted by the stakeholders theory (Perrini et al., 2011; Conesa et al., 2017). According to the theory, the main objective of the business is to create much value for stakeholders over time. In this regard, creativity and innovation is crucial to keep these interests aligned and strategy of trading off the interests of stakeholder against each other. So for stakeholders, executives have to create as much value as possible for shareholders and other financiers (Yunis et al., 2017; Farid et al., 2021).

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At present, CSR has become a focal topic of interest for business firms but the progress of CSR in Pakistan is rather low. In Pakistan the organizations are usually surveyed by credit rating agencies for achievement of their stakeholder management activities. In the year 1996, the lack of interest was culminated in domestic business sector by using firm data for finalizing the report related to CSR compliance in Pakistan for RBI (Responsible Business Initiative) (Waheed, 2005). Recently it is in a premature stage in Pakistan. There are only a few organizations, the multinationals which follow their own CSR parameter (Iqbal et al., 2012; Khan, Saeed, Ali, & Nisar, 2021). CSR keeps a deep rooted relationship with community. The community development programs are the master key which UN unveils resulting fair CSR practices. It is observed that in Pakistan such practices in CSR are far behind apex level. The international market is now researching on newly adopted procedures to promote and facilitate humanity in general. The Government should step forward to stitch together all the segments in CSR by introducing the environment based investment and to share with corporate sector all its obligation so as to ensure their implementation plans for development of community at the lowest level.

Innovation is basic requirement of a firm ability as it empowers an organization to cater its commercial needs and is also necessary for high profits and long run viability. Innovation has a dominant position to issue new directives on social matters. Viable innovation in wider terms can be defined as “a process of inducing fresh ideas, behavior, products and systems that is involved to lessen the environmental burdens or to ecologically specified viability objectives” (Rennings, 2000: p.322). Thus innovative processes are worked out in a wider prospective to avoid un-necessary strain over productive mechanism (Rennings, 2000; Ali, Ahmad, & Saeed, 2018). Innovation is therefore a vital requirement for organizations. The major factor of any organization’s smooth development is the joined practices which brings innovation. (Schaltegger, 2011). If for any cause an organization fails to achieve its goal and profit margins then its existence is also threatened. Indirectly, CSR is believed to be the basic mean for achievement of organization’s trail (Cheng et al, 2016). Among other researchers Varis and Littunen (2010) also agreed upon the fact that to get involved in innovation activities periodically may help an organization to perform well and achieve their objectives in a lesser time. In literature only limited studies have discussed the linkage between innovation and organization performance. The link between the CSR and Firm Performance (FP) is not clearly be perceived yet. Surroca et al. (2010) augmented such invisible formulated ideas are needed to improve understanding between CSR and financial matters.

All the evidences given above prove that the destructive factors of corporate performance indicators are remodeling. Some empirical studies revealed the limited joint effects on performance of organizations (Gonzalez-Ramos et al., 2014; Ullah et al., 2021). The Commission of the European Communities (2001) reported that “CSR is amalgam of social and environmental concern to corporation tariff and in their relationship to stakeholder on voluntary basis” (Commission of the European Communities 2001: p. 6). One of the main advantage of CSR is the ability of bringing innovation such as when CSR strategies merge into firms then the organization sparks in innovation more rapidly (Bocquet et al., 2013; Bocquet et al, 2017). The critical research theory reveals that the combine nature of firms and the CSR becomes a big force to strengthen innovation i.e. the mutual development (Mc-Williams & Siegal, 2001; Zia, Saeed, & Khan, 2018). Therefore this research might test a relationship between the CSR, Innovative Performance (IP) and FP in context of textile industry. In literature only limited studies have discussed the linkages between CSR and organization’s performance through innovation. Also, the link between the CSR and FP is not clearly perceived. Therefore this research might answer the question: Does innovative performance mediate the relation between CSR and firm performance in Textile industry of Pakistan?

This study is composed as: next sections elaborate literature review and hypotheses followed by research methodology. Afterwards, the results and discussions are incorporated. In last, research conclusion, implication, limitation and future directions are furnished.

LITERATURE REVIEW

Corporate Social Responsibility

Bowen’s (1953) is the pioneering effort to address the relationship between corporations and society. In his book, Bowen (1935) stresses the need of CSR’s activities which are more important comparatively to other business’ rules. Lou et al (2011) discussed various different dimensions of CSR and other environmental issues that have link with stakeholders. Primary stakeholders are “individuals, groups, and/or institutions without whom continuing

participation the corporation cannot survive” (Clarkson, 1995, p. 106). And the typical stake holders are the individual of high grade like owners, employers, suppliers, customers and other intellectuals in the public and community (Clarkson, 1995; Gul, Ali, & Saeed, 2021). This study concentrates the five core dimension of CSR which are a) CSR with customers, b) CSR with suppliers c) CSR with employees d) local community CSR activities and e) obligating environmental responsibilities.

a) Responsibility towards Customers

The fact of dealing the customers with due respect and keen attention is an age long experience in business to safeguard the company’s interest. Thus it greatly depends upon the employees’ tactics how rationally he receives his customer. A company needs to grow a healthier environment whose employees enjoy reputation of their loyalty. Contrary, some broader social responsibilities are expected to be delivered to customers like safety and durability of products or services, addressing customer’s complaints, adequate supply of products or services; fair means of advertising and trading; and providing full and univocal information to potential customers.

b) Responsibility towards Employees

Businesses are regarded as the greatest contributors to the employment fields nowadays. Social responsibilities of businesses to employees extends far beyond the boundaries of formal contract of employment .In order to meet the expectations of employees, companies have to initiate such programs which might improve the life standards of their employees. Such expectations might be a) taking care of the personnel’s welfare b) safety at work c) upholding their skills and d) motivation for the work.

c) Responsibility towards the Community

The prosperity of individuals and societies is vital for the survival of the companies. In-fact good health of individuals as well as the stability of societies are important elements for the success of companies. As the society provide employees and customers to the companies. Nowadays, companies are defending community causes. For instance, companies are enlarging the number of vocational training centers, recruiting socially excluded people and sponsoring local sports and cultural events. Companies also support societies and communities regarding donations to such institutes dedicated for destitute people and charitable activities.

d) Responsibility toward suppliers

Some scholars Jones (1995) declared that business and society were not deeply associated completely, until the firm’s interests are involved. The different actors named as stakeholders are vital for organization’s ecosystem. According to Henriques and Sadorsky (1999) these stakeholders can be categorized as: (a) organizational (e.g., employees, customers, shareholders, suppliers), (b) community (e.g., local residents, special interest groups), (c) regulatory (e.g., municipalities, regulatory systems), and (d) media stakeholders.

e) Environmental aspects of CSR

Environment has a deep routed relationship with human life and an important role to play in the CSR activities. In recent past environmental and ecological issues have been enormously discussed in the business world. Business activities can take place only in congenial environmental phenomena. Societies, business and other social activities can flourish only in friendly environment.

Innovative Performance

According to Therrien et al. (2011) “innovation is a complex process related to changes in production functions and processes whereby firms seek to acquire and build upon their distinctive technological competence, and the way in which these are transformed by innovative capabilities”. Innovation was first described by the German economist and political scientist Schumpeter who defined five manifestations of innovation. According to him innovation is “Creation of new products or qualitative improvements in existing products, use of a new industrial process, new market openings, development of new raw-material sources or other new input into the organizations”. The innovation process in trade and the business is a burning issue that demands our attention to solve our decades old problems.

Firm Performance

Firm performance is a multidimensional concept (Murphy et al., 2002; Saeed, 2017). and act as an indispensable chapter in the CSR book. The scholars are of the opinion that indicators of firm performance can be departmental, such as pertaining to production, finance or marketing or consequential such as pertaining to growth and profit.

It can be assessed objectively or subjectively. Performance of a company not only depends on the efficiency of the company itself but also on the market where it operates. Similarly, financial health of the company is a strong indicator of its performance. Some of the financial parameters used to judge the performance of companies are revenue, return on equity, return on assets, profit margin, sales growth, capital adequacy, liquidity ratio, and stock prices etc.

Theoretical Frame Work and Hypotheses Development

Corporate social responsibility and innovative performance: In current era, CSR has much more consideration in companies. Many authors (e.g. Gladwin et al. 1995; Nadeem, Saeed, & Gul, 2020) have suggested that CSR is a kind of business strategy which has advantages for organizations in the long-term. Currently, for any organization it's much more important now days to be a socially responsible organization than ever before. As the expectations of society have changed, this also changed the expectation of customers, employees and even employers. In the era of globalization, organizations can't afford to conduct destructive and unethical business practices like injustice to labor, ill practices of labor laws, child labor and polluting environment. In order to be prominent in the market, the importance of conducting sustainable business practice has become very much essential (Rexhepi et al., 2013; Khan, Kaewsang-on, & Saeed, 2019). The basic reason for choosing a sustainability approach is to reduce the negative environmental and social impacts of corporate activities and at the same time strive to improve the performance of the organization (Baumgartner 2014).

Nowadays, innovation is essential part of CSR. For any organization the primary concern is innovation along with performance. Also organizations depend on innovation for their growth and survival. (Kim et al., 2014). Recently, Kim et al. (2014) suggested a unique concept of corporate sustainability which focuses on innovation as a source to add value. Sustainable innovation can be explained as a process of getting new ideas, behavior, products, and processes that helps in reducing environmental burdens and ecologically specified sustainability targets.

In literature, the relationship between CSR and innovation has been investigated by many researchers and their findings reported a positive relationship (McWilliams and Siegel, 2000). Some researchers tried to identify the type of CSR strategy that could be used with innovation (Bocquet et al., 2013; Burki, Khan, & Saeed, 2020). McWilliams and Siegel (2000) accentuated that promoting environmental practices may promote investments in research and development, which in turn can enhance process and product innovations. On the other hand, Gallego et al., (2011) indicated a bi-directional relationship between CSR and innovation and found that sustainable practices may not always result in creational standard and innovation. Similarly, a survey carried out in 553 Spanish organizations reported strong and positive correlation among CSR and competitiveness in terms of two things, innovation and intangible performance (Conesa et al., 2017; Khattak, Saeed, & Tariq, 2018). Based on the literature support, the first hypothesis is predicted here that:

H1: Corporate social responsibility has positive impact on innovative performance of firms.

Corporate social responsibility and firm performance: Many CSR scholars seek to understand that how CSR behavior can affect the shareholder wealth. Firm performance is better understood by market than accounting (Margolis and Walsh, 2007; Al Hassan, Fatima, & Saeed, 2019). Scholars who considered the financial aspect of CSR believed that it has positive effects on stakeholders' interest (Kang et al, 2016). CSR ultimate goals are work for better image, attract and retain talent, make good relationships with stakeholders which result in better economic performance. The main theme is that CSR is an organizational tool that may enable positive use of resources (Orlitzky et al., 2003; Ali, Saeed, Khan, & Afzal, 2021), which helps in better firm economic performance. Socially responsible behavior lessens the threat of maintenance, prevents pressure from other firms, overcomes negative feedback from public opinion and consumers' association, and eliminates the option of being boycotted by consumers. CSR activities may also help to empower the firm's strategy for remaining in competition with other firms (McWilliams and Siegel 2001). CSR has some vague effects on firm performance reported in earlier literature. Some research points a positive relationship (Gallardo-Vasquez and Sanchez-Hernandez, 2014). If a firm's financial conduct is comparatively good, then it may governs its way for encouraging investments in social activities as compared to a firm financially weak. If the financial performance is down, the managers may try to normalize it by launching good and more social activities so CSR actions may have a good impact on firm's performance (Carroll and Shabana 2010). Hence it is hypothesized as:

H2: Corporate social responsibility has positive impact on firm performance.

Innovative performance and firm performance: Bakar and Ahmad (2010) demonstrated that business innovation is an important segment without which the business would certainly collapse. Roberts and Amit (2003) accentuated the importance of innovation as a major source of competitive advantage and higher profitability. The innovation above board leads the business to a competitive advantage. Other approaches of firm state that innovation may have transitory impacts on performance of firms as new knowledge be imitated and practiced rigorously by rivals. However, innovation yet has a vital role to play in keeping the companies ahead of competitors. Also some organizations from different industries and institutional settings remain superior to their rivals regardless of the parameters used for performance (Kemp et al., 2003; Rahman, Saeed, & Batool, 2019). Since the argument of Schumpeter (1934) who declared innovation a major source of long-term firm success (Rosenbush et al., 2011), scholars declared that such firms who fail to engage in innovation mitigate their chances of success and are getting themselves in great risk. Innovation in the business sector has gained a top position in the firm stability, shortly innovation is an absolute demand without which the role of firms would remain unrated and it would not be able to gain place in any competitive confrontation. As product life cycles have shortened in this era, innovative capacity of firms has gained more importance than ever (Artz et al., 2010; Tahir, Rahman, & Saeed, 2019). For this reason, innovation has become a requisite objective for all firms (Lipit, 2006). The majority of the authors have concluded that firms with innovation have left an un-edible land mark in the industry than others (Diederer et. al ,2002; Favre et al., 2002). Hence the next hypothesis is posed as:

H3: Innovative performance has positive impact on firm performance.

Mediating role of innovative performance: It is widely known from the literature that firm’s modernization fuels up the relationship between CSR and firm financial performance (Surroca et al., 2010). For instance, MCWilliams et. al, (2006) favored research and development investment to see an accelerated boost in financial performance. As CSR strategies lead to improve modernization of the firms (Bocquet et al. 2013; Khan, Saeed, & Khattak, 2018).

There are some studies which show positive link (Margolis & Walsh 2003); whereas a few nd negative relationship (Gössling, 2011). This dissonance research work and lacking empirical evidence relating the CSR and firm performance relationship shows a wide range of research issues (McWilliams et al. 2006; Perrini et al. 2011; Bocquet et al, 2015). Specially, an overly strong emphasis on financial rather than economic performance is stressed (Orlitzky et al. 2003). Some scholars also suggested that CSR and firm performance relation may be affected by different factors such as intangible resources like innovation (Surroca et al. 2010).

By observing firm’s innovation (Surroca et al. 2010) may thus be critical when studying the relationship between CSR and performance (through growth). Different empirical studies have shown the impact of modernization on firm growth (for an exhaustive review of these studies, see (Bocquet et al., 2015), in most cases it shows positive relationship. This link can be enriched by inculcating innovation between CSR and performance. The description for any mediating impact that this variable could play, the hypothesis is proposed as:

H4: Innovative performance mediates the relationship between corporate social responsibility and firm performance.



Figure 1: Proposed Research Model

RESEARCH METHODOLOGY

To meet the objective and test the hypotheses of this research, quantitative technique was deployed. In current research, individual employee from textile industry acted as the unit of analysis. The textile mills were located in cities of Faisalabad and Lahore based in province Punjab of Pakistan. The estimated total population is about 80000 workers. According to Sekran (2009) if the population is around 80000 the sample should be at least 280. In this

research a round figure of 300 has been taken as sample size. The sample was selected using convenient sampling technique. A total of 272 questionnaires were received back from respondents. In these returned questionnaires, 8 were discarded because these were incomplete. So 264 responses were used for final data analysis. The response rate was 88%.

It was very tough to find those measures who support CSR due to the complexity of the theoretical construct because measurements of a single dimension provide a rather limited perspective of a firm’s performance in the relevant social and environmental domains (Wolfe, 2003).

CSR with its dimensions was operationalized focusing four stakeholders (suppliers, customers, employees, local community and environment). Some further details depict to measure CSR with employees consisted five items, CSR with customers consisted four items, CSR with suppliers consisted three items, CSR with local community consisted five items and CSR or environment consisted six items. The scale of CSR was adopted from Lindgreen et al, (2009). Innovative performance was also adopted from literature (Manu, 1992; Bocquet et al., 2013) and represent to the generally advancement of the firm with regards to new or enhanced products. In this research to measure innovative performance some items i.e., two items were taken from Bocauet et al., (2013) and other three items were taken from Manu, (1992). To measure firm performance, we utilized a variable concentrated on competitive performance, like that embraced by Gallardo-Vasquez and Sanchez-Hernandez, 2014 which contained eight items. All items responses were recorded on a 5-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). Statistical Package for Social Sciences (SPSS) software was used to undertake the analysis and generate the results. Descriptive statistics, normality and reliability along with correlation analyses were conducted through SPSS. The hypotheses were tested through regression techniques.

DATA ANALYSIS AND RESULTS

Descriptive Statistics

The descriptive of responses are drawn in Table 1. Some details highlighted that male were outnumbered to female ratio. Responses were relatively young with average experience above five years.

Table 1: Profile of Respondent

Demographic	Description	Percentage (%)
Gender	Male	67%
	Female	33%
Age	21-25	24.4%
	26-30	38.6%
	31 and above	37.0%
Qualification	Bachelor	60%
	MS/M.phil	39%
	PhD	1%
Experience	1 to 5 year	42%
	6 to 10 year	36%
	11 and above	21%

Normality Test

We ran normality test on SPSS to check the normal distribution of data. It was observed that the values of Skewness and Kurtosis lied within the range of +3 and -3. The result show the normality of the distribution of the data and is demonstrated in Table 2.

Table 2: Normality Test

Variables (N = 264)	Skewness	Kurtosis
Corporate Social Responsibility	-.885	.641
Innovative Performance	-.979	1.446
Firm Performance	-.917	.627

Reliability Analysis

To estimate the reliability of our instruments in this study, Cronbach’s alpha was used to check the internal consistency of the data. It is a good measure for reliability. The table show Cronbach’s alpha values for all variables. Cronbach’s alpha of innovative performance is .709, firm performance is .854 and CSR is .882. The Cronbach’s alpha values indicate that all the three variables were reliable.

Table 3: Reliability Statistics

Description	Corporate Social Responsibility	Innovative Performance	Firm Performance
No of items	23	5	8
Cronbach’s Alpha	.882	.709	.854

Correlation Analysis

Correlation is liner association between two variable. For details consult Table 4.

Table 4: Correlation Analysis

Variables	CSR	IP	FP
CSR	1		
IP	.507**	1	
FP	.623**	.705**	1

** . Correlation is significant at the 0.01 level (2-tailed).

Hypotheses Testing

Regression Analysis: Regression is linear association between two variable but it is directional. So test the hypothesized relationships regression technique was deployed. The results are depicted in Table 5. According to the results, CSR has positive impact on IP ($\beta = .36, t = 7.12, p = .000$) so H1 is accepted Afterwards, H2 was tested the results showed that IP has positive impact on FP ($\beta = .16, t = 5.66, p = .000$) so H2 was also accepted. In last, CSR impact on FP as hypothesized in H3 was checked and this relationship was also found significant ($\beta = .22, t = 6.41, p = .000$) so H3 was also accepted.

Mediation Analysis

To test the mediation effects Hayes (2012) PROCESS MODEL technique was used. The bootstrapping technique for robust testing of hypothesis is deployed. All these results are summarized in Table 5. According to H4 CSR was found to have positive impact on firm performance through innovative performance ($\beta = .12, LLCI = .05, ULCI = .19$). For Hayes, only the effect size should be significant (.31). To check the indirect effect size bootstrapping was done at 95% confidence interval with 5000 draws. Thus, H4 mediated hypothesis also was approved.

Table 5: Hypothesis Testing

Variables	β	t	p
CSR – IP	.36	7.12	.000
IP – FP	.16	5.66	.000
CSR – FP	.22	6.41	.000
Direct effect CSR on FP	.22	4.5	.000
Bootstrap results for indirect effects			
Effect size	β	LLCI	ULCI
Effect IP	.12	.05	.19

Note. CSR = Corporate Social Responsibility, IP = Innovative Performance, FP = Firm Performance

DISCUSSION

This article has examined the relationship between corporate social responsibility practices on firm performance and also checked the mediating role of innovative performance in order to better understand the links that might exist in the context of textile industry. The results show that the companies who have been most proactive in their CSR activities their industry performance are best as compare to others. The CSR practice positive impact on firm performance improves through innovative performance. In business environment innovation is compulsory for increasing profits and firm performance. CSR as a novel antecedent to firm innovation acted to introduce new products introduced. When introduced new product first find the market orientations (like., customer, competitor, and technological-orientation) which are key determinants of firm innovations. This contributes to improve the competitive power of the industry by investing and innovating continuously, creating technical jobs, and spreading technical culture. It was also found that favorable CSR practices exist towards employees. This industry provides its employees medical facilities which cover almost all sorts of diseases. Beside this every employee is given accidental insurance which provides medical treatment and financial help to the employee and their families if there in case employee's life is lost or in disability of any body part as a result of some accident on job. Organization also provides transportation services to its employees from their home to workplace. If the employees are staying in company accommodation then they are provided free utility services. They also make sure that employees can enjoy subsidies food company's cafeterias with reasonable price and quality. Organizations also consider the social responsibility of local community and its staff by arranging different festivals and recreational activities. In textile industry mostly organizations provide discounted products to its employees as well as local community of that area.

Employees are of vital importance for any firm. It is obvious every firm performance depends employees' hard work. The findings confirm that innovative performance has mediating role between CSR and firm performance as company adopt CSR practices its impacts the firm performance through the mediation of innovativeness. When CSR practice are adopted it positively impacts firm performance. It is necessary for every industry to investigate the best way in which they can achieve successful supplier development programs. While CSR is approved as a strong predictor of firm performance.

CONCLUSION

This study analyzes the direct effect of CSR on firm performance and through the mediation of innovative performance when the influence of CSR practices on innovative performance is considered. It is also highlighted the relationship between CSR, innovative performance and firm performance. This research was based in textile industry. According to result the firm interest in CSR practices and care of their employee, customer, community, suppliers and environment are vital activities for companies. The relationship of CSR and innovative performance is also positive and significant as innovation is needed according to customer demand and comfort. On the other hand mediating role of innovative performance should also be focused to enhance firm performance.

Limitations and Future Directions

This research lend some space for future research as it carried some limitations. This study only adopts quantitative method, future researcher can adopt qualitative research or mixed method. Also this research was based only in textile sector having relatively small sample size. A future attempt may consider other industries apart from textile sector taking larger sample size. Regarding data collection time horizon, this research was based on cross sectional research setting while future research may use longitudinal research settings. Further, future research may consider the mediating effects of other types of innovations apart from the one used in this research. In last, future research can also take contingency variables factor like firm growth, industry competitiveness as moderators to further enrich research model of current research.

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