CHAPTER 2
LITERATURE REVIEW

2.0 Chapter Introduction

This chapter deals with a detailed literature review of the major constructs used in the study. The literature review is divided into nine sections. The first section presents a detailed review of Corporate Social Responsibility (CSR) and its antecedents and consequences. The second section discusses corporate reputation as a major consequence of CSR. The third section presents a brief overview of financial performance. The fourth section describes the link between CSR and performance of a firm. The fifth section discusses the relationship among corporate reputation and financial performance. The next sections move on to deal with competitive intensity existing within an industry, social initiative and corporate strategy fit; reputation management capability of a firm; and stakeholder power. Since the study intends to capture the effect of various stakeholders of a firm separately, this chapter also describes three significant stakeholders namely suppliers, customers and employers. The Chapter ends with a discussion on the research gaps identified from the review of literature.

2.1 The Concept of Corporate Social Responsibility (CSR)

CSR has been portrayed as subtle/indefinable (Smith and Langford, 2009); expansive, multi-faceted (Mohr et al., 2001); impressionable (Devinney, 2009); as well as fuzzy and blurry (Geoffrey, 2001). A socially responsible firm runs business profitably, simultaneously accounting for the effects (positive and negative, environmental, social and economic) it has on society. Rowe (2006) believed CSR to be “more than philanthropy—or “giving back to society”. Moir (2001, p. 17) opined that CSR advocates consider numerous issues such as marketplace
(customers, suppliers), human rights, employees, community, corporate ethics and environment. He believed that businesses contribute to the society when they are efficient, profitable and philanthropic. So, CSR needs to be viewed as something more than cost, constraint or simply charity. It should rather be viewed as a strategic step which aids in generating opportunities, innovation and in creating competitive advantage (Porter and Kramer, 2007).

CSR includes the economic, social and environmental motives of the organization while focusing on duties that a business needs to fulfill as a good corporate citizen (Lee et al 2009). Business activities need to take care of an organization’s “commitment to minimizing or eliminating any harmful effects and maximizing its long run beneficial impact on society’ (Mohr et al. 2001, p. 47). Consumers have a preference for organizations that are socially and environmentally responsible, so companies need to manage business activities such that the society enjoys its overall positive impact.

2.1.1. Defining CSR

The term CSR has been described by various researchers in numerous ways. The widely used definitions for the CSR are stated below.

Bowen (1953) is considered to have laid foundation for this topic in the landmark book Social Responsibilities of a Businessman. He provided the initial definition of social responsibilities of a businessman which goes on to state that “it (social responsibility) refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society” (p. 6).
Davis (1960, p. 70) came forth with the definition that CSR denotes “businessmen’s decisions and actions taken for reasons at least partially beyond the firm’s direct economic or technical interest”.

Johnson (1971) in his book *Business in Contemporary Society: Framework and Issues* gave a variety of definitions of CSR. He subtly hinted at a Stakeholder approach when he defined socially responsible firm as “a firm whose managerial staff balances a multiplicity of interests. Instead of striving only for larger profits for its stockholders, a responsible enterprise also takes into account employees, suppliers, dealers, local communities, and the nation” (p. 50). Johnson (1971) came up with four definitions or approaches of CSR. The first stated “social responsibility in business is the pursuit of socioeconomic goals through the elaboration of social norms in prescribed business roles; or, to put it more simply, business takes place within a socio-cultural system that outlines through norms and business roles particular ways of responding to particular situations and sets out in some detail the prescribed ways of conducting business affairs” (p. 51). The second view states: “businesses carry out social programs to add profits to their organization” (p. 54). The third view believes in “utility maximization”, where a firm fulfils multiple goals rather than simply maximizing profits (p. 59). Johnson specified that a socially responsible manager is interested not only the well-being but of his firm but also in the benefits of his fellow citizens. Finally, the fourth or the lexicographic view stated that the goals of the enterprise are graded as per importance.
Jones (1980, pp. 59-60) provided an interesting perspective when he considered CSR to be a process and defined CSR as a “notion” that believes that corporations are obligated not only to stockholders but also towards the society beyond what is legally prescribed.

Carroll (1999) made extensive efforts to trace the evolution of CSR beginning from the 1950s. The study categorized the growth of CSR in every decade beginning with the 1950s. The study stated that CSR definitions were developed during the 1960s and promulgated by academics. The definitions gradually became more specific; with alternative constructs such as corporate social responsiveness during the 1970s. The 1980s saw more empirical research, and theories like business ethics and the stakeholder theory. The 1990s witnessed the evolution of CSR into alternative thematic frameworks. Carroll’s (1991) four categories (economic, legal, ethical, and discretionary) defined CSR and explained how they were associated with managerial discretion (individual level), social legitimacy (institutional level) and public responsibility (organizational level). The most significant contribution of Carroll (1999) was the ‘Pyramid of CSR’ (Figure 2.1) that emphasized the duties of a firm. First and foremost, a firm needs to produce goods and services for customers and make profits in the process, while working within the framework of the law. Next, the firm needs to perform its duties in an ethical manner and then act in a philanthropic manner. The choice of a firm to be socially responsible depends on the viewpoint of the firm. The inherent motive of an organization is to make profits, so economic performance is given more attention amongst the four CSR components i.e. economic, legal, ethical and discretionary (Carroll, 1991).
Cramer (2005, p. 257) opined that CSR can be achieved by developing “new shared values, norms and attitudes, as well as a strategic embedding within the organization of the three pillars ‘people’, ‘planet’ and ‘profit’”. Carroll (1999, p. 292) stated “the CSR concept will remain as an essential part of the business language and practice, because it is a vital underpinning to many of the other theories and is continually consistent with what the public expects of the business community today”. Existing literature categorizes social responsibilities of a business as CSR to Suppliers, Customers, Community, Employees and Environment (Bravo et al., 2012).

2.1.2 Antecedents of CSR
Antecedents of consumer perceptions regarding a firm’s CSR level are derived from a firm’s focus on ethics communicated by ethical statements (Stanaland, Lwin and Murphy, 2011). These statements are a formal structure used by companies to institutionalize ethics (Stevens 2008; Valentine and Barnett 2002). It is highly likely that consumer perceptions regarding a firm’s
ethical statements persuade their perceptions of a firm’s CSR commitment. A firm’s financial success affects the consumer’s perceptions about a firm. Literature supports the view that social performance is positively linked to prior profits (Waddock and Graves, 1997). Firms with superior performance are fit to engage in social activities as compared to their less profitable counterparts. It is logical for customers to expect a profitable company to invest in social welfare. Research however fails to justify if consumers can assess performance and associate it with CSR activities of a firm (Stanaland et al., 2011).

Bravo, Matute and Pina (2012) analyzed CSR actions undertaken by financial entities by analyzing information disclosed in their websites. They focused on studying the extent and nature of different Corporate Identities (CI) through CSR. They analyzed 82 financial institutions (42 banks, 40 savings banks) in the study. A content analysis of the websites revealed that 77 of the 82 (i.e. 93.9%) financial institutions functioning in the Spanish market provided various CSR related information; 48% of the firms provided superficial data, i.e. by simply mentioning major areas of social interest; 52% provided total access to detailed information in their annual social responsibility reports; and 47.5% of the firms provided report only for the previous period, while the remaining entities contained information of five periods. The study calculated CSR dimensionality and the significance of each dimension in forming CI through frequencies and mean analyses. The CSR information collected from the websites was grouped by the activities implemented by banks (to meet the social needs of groups like customers, suppliers, employees, the community and the environment. The codification procedure assigned a value of 1 to an institution that provided specific information on a category, and 0 in absence of any information. The dimensions of CSR so categorized were: CSR to Suppliers, Customers, Community,
*Employees and Environment.* Institutions that tend to create communicated CI through CSR were identified through t-tests when the variables demonstrated normality; and through non-parametric tests when normality was not confirmed. Cluster analysis was conducted to confirm the findings. The study examined the effect of firm size (measured through total assets, number of employees and number of offices) on CSR information. Results revealed that:

(i) Savings banks published more information related to social issues, suppliers and employees;

(ii) Listed banks disclosed more information related to their social activities;

(iii) Spanish entities reported cultural, community welfare activities, sports and leisure activities;

(iv) There were no significant differences between national and international concerns;

(v) There was a positive and significant relationship amongst dimensions of CSR and the measures of firm size; &

(vi) Larger entities that were more visible to stakeholders and externally exposed, were interested in disclosing CSR information to legitimate behaviors and be known as a good corporate citizen. This study ascertained the role of CSR in forming the communicated identity of an organization.

Campopiano, De Massis and Cassia (2012) identified four patterns why firms act in a responsible manner: (i) Economic motivations: to increase profits and improve corporate image to benefit the enterprise; (ii) Investments in social initiatives to retrieve the previously damaged reputation and to improve corporate image; (iii) To take care of stakeholders of the community; and (iv) To preserve the environment to improve or to recover its image.
This paper suggests that CSR activities lead to increased profits, rectify prior damaged corporate reputation and improve it as well.

The next section discusses the major consequences of CSR: corporate reputation, firm performance, the relationship between CSR and corporate reputation and the relationship between CSR and performance.

### 2.1.3. Consequences of CSR

CSR provides the company with several intangible benefits like improved brand image, innovation, business efficiency, corporate reputation and image (Schwaiger, 2004), improved employee motivation, and customer and employee satisfaction. Firms in the same industry compete in the product market, and CSR could act as a differentiating factor. In the Indian context, scope and intensity of CSR activities is determined by the combined effect of social pressure (i.e. government, NGOs and social activists) (Baron et al., 2011). Social pressure is
important as it directly influences market value by either attracting or driving away investors from the firm; or indirectly by harming the reputation or brand equity of the firm. A firm may also engage in CSR activities to be a less attractive target from NGOs (Baron, 2009).

Consumers tend to associate quality products with corporate citizenship behavior of firms (Maignan and Ferrell, 2001). Studies even suggest that potential job-seekers value CSR as an indication of organizational attractiveness (Greening and Turban, 2000). The self-image of an employee is affected to a great extent by the corporate image and reputation of the employer. Consumers (Aaker, 1994) and institutional investors (Graves and Waddock, 1994) identify themselves with firms involved in proactive citizenship behavior which consequently creates value (viz. customer loyalty, advocacy, positive word-of-mouth) (Sen et al, 2006; Hoeffler and Keller, 2002). Similarly, negligent actions of a firm affects stakeholders adversely and they reacting by boycotting (Herbert, 1996), reducing usage of the firm’s products (Sen and Bhattacharya, 2001), or spreading negative word-of-mouth about negligent business practices (Clair et al., 1995).

2.2 Corporate Reputation (CR)

Corporate Reputation (CR) has been defined as “a collective representation of a company’s past actions and future prospects that describes how key resource providers interpret a company’s initiatives and assess its ability to deliver valued outcomes” (Fombrun, 1996, p. 293). According to Lai et al. (2010, p. 458), CR is “the overall impression reflecting the perception of a collective stakeholder group.” In a nutshell, CR comprises of a holistic assessment of the organization’s image formed by stakeholder’s personal views (Whetten and Mackey, 2002). The key elements
of corporate reputation are identity, desired identity and image (Chun, 2005; Davies and Miles, 1998). CR is affected by various factors such as financial soundness, quality of management, and demonstration of social responsibility (Vandelo, 1998). Firms can hence make an effort to influence their reputation by going for corporate social reporting.

Chun (2005) examined the construct of CR by unraveling the terminological problems caused by past interdisciplinary research. The paper also described the confusion existing in reputation measurement tools. Uni-dimensional measures where respondents rate the corporate reputation of a firm from ‘poor to good’ have been criticized on the ground that it fails to explain the reasons of disparity amongst various firms (Goldberg and Hartwick 1990). Studies opting for a qualitative approach have been criticized on the ground that it is difficult to compare reputations of different stakeholder’s views. Summarizing the literature, the author stated that CR can be considered as a gestalt construct, referring to the overall notion of internal and external stakeholders. ‘Reputation management’ refers to the overall activity in an organization to influence external perception. This study concluded that CR is the summary of perceptions held by all relevant stakeholders of an organization. A clear and generalized understanding of what CR is, and valid measures of the construct would help in assessing the assertions regarding the interrelationships between corporate reputation and the variables that affect firm performance over the years.

In order to avoid the fallacies that result from qualitative studies, this study used data from secondary audited sources. The reputation scores were collected from the Fortune India 500 list that provides a list of reputed firms, scored on variety of aspects like profits and growth. For
higher accuracy aggregate values of three sets of rankings (Fortune India 500, Business Standard and Economic Times) were used.

2.3 CSR and Corporate Reputation

CSR activities have influence on the firm’s marketing efforts such as corporate communication, branding and reputation building. Dutton and Dukerich (1991), Dowling (1986), and Zadek et al. (1997) opined that CR involves the perceptions about an organization that result from the information conveyed through interpersonal communication and advertising. Good reputation acts as a competitive advantage giving firms the ability to attract investors easily, gain access to capital markets, charge premium prices and have improved credit ratings (Fombrun, 1996).

Hsu, K. (2012) investigated the effect of persuasive and informative advertising regarding CSR efforts on CR and brand equity in the Life Insurance (LI) industry of Taiwan. This study focused on the effect of CSR perceptions of the policyholders on customer satisfaction in LI companies in Taiwan. The study focused on the relation between policyholders’ positive perceptions regarding the CSR activities of LI companies’ and high levels of customer satisfaction; brand equity; corporate reputation; the mediating role of CSR on CR and brand equity. The sample comprised of policyholders of major LI companies in Taiwan, who were aware of the CSR initiatives of firms. In all, 600 questionnaires were distributed of which 383 were returned and were considered suitable for analysis. The scales measured respondents’ perceptions of CSR initiatives of LI companies; corporate reputation; customer satisfaction; brand awareness and brand associations on 7-point Likert scale; and demographic details of the respondents. The
The model was tested through structural equation model using AMOS 16.0. Results revealed that: (i) Policyholders’ perceptions concerning the CSR initiatives of LI companies positively effects customer satisfaction, brand equity and corporate reputation; (ii) CSR initiatives have a positive impact on brand equity and provide informative advertising as well as persuasive advertising effect.

2.4 CSR and Firm Performance

The probable link between CSR and profitability is a matter of discussion. Businesses spend a huge amount on CSR as compared to what they spend on campaign contributions and lobbying. For some firms, CSR is an instrument to achieve financial objectives by generating competitive
advantages, while for other firms CSR is just a strategic definition. Empirical studies that examined the relationship between CSR and performance in the past have provided complex and mixed conclusions (viz. Waddock and Graves, 1997; Dowell, Hart, and Yeung, 2000; Mahoney and Roberts, 2007; Kotchen and Moon 2008 Baron; Hajoto and Jo, 2011). The Economist observed, “it is almost unthinkable today for a big global corporation to be without a CSR policy”.

Firm performance has been broadly measured using market-based, accounting-based and perception based measures (Orlitzky, 2003). Literature provides as many as 80 performance measures (Griffin and Mahon, 1997) on CSR–firm performance relationship. The measures vary according to the objective of the study. There are different measures for operational profits, accounting profits and market efficiency. Generally, the most frequently used FP measures are firm size, asset age, return on equity capital, return on assets (ROA), PB Ratio, ROCE and return on sales. This study used measures of operating profits, accounting profits and market measures for analyzing performance. ROCE was used as a measure of operating profits, Net Profit was used as a measure of accounting performance, and Price to Book ratio was used to measure market performance. Relevant literature on these measures has been provided below.

2.4.1 Relationship between CSR and Firm Performance (NP, ROCE, and PB Ratio)

Soana (2011) investigated the relationship between Corporate Social Performance (CSP) and FP in the Italian banking sector. Amongst the multidimensional ratings that quantify CSP, data from Italian ethical rating agencies such as AEI, Axia and SAM were used. These agencies initially used heterogeneous evaluation processes. Later, a comparative analysis was conducted to
A quantitative analysis on CSP and FP was conducted on 21 international banks rated by Ethibel and 16 Italian banks rated by AXIA. CSR was proxied using the ‘analytical’ and ‘global’ ethical ratings for the year 2005. FP was quantified using accounting (ROAE, ROAA, and Cost – to - Income Ratio) and market measures (Market to Book Value, Price to Book Value and P/E) as on 31/12/2005. A correlation between the rankings and performance failed to reveal any statistically significant relationship. Of the four Ethibel parameters (internal and external social policy’, ‘environmental policy’ and ‘economic policy’), none of the banks show a statistically significant linkage to accounting and market ratios. The indicators showed no correlation with accounting and market ratios, except a positive link between ‘corporate governance’ and ROAE, ‘employees and cost/income, ‘international operations’ and market to book value, ‘international operations’ and price to book value. In the AEI sample, ‘governance’ showed a negative relationship with ROAE and ROAA. This shows that banks with transparent ownership structures are the least profitable for shareholders. Also, this signifies that bank investment in CSR does not lead to financial advantage.

**2.5 Corporate Reputation and Firm Performance**

A positive reputation provides an organization with competitive advantage and enables it to charge higher prices for its products and services (Fombrun, 1996). Black et al. (2007) established that organizations use resources to enhance reputation, expecting that they will enhance performance. Positive reputation affects supplier’s choice (Weiss et al., 1999) leading to assured supply of better quality inputs ultimately resulting in higher profits (Roberts and Dowling, 2002). Little and Little (2000) revealed that highly reputed firms have higher P/E ratios
due to their CSR activities. Hence, it can be concluded that CR is a vehicle that affects performance. Orlitzky et al. (2003) found measures of CR to be highly correlated with FP measures. Standards on CSR towards suppliers integrate ethical issues such as ethical raw material procurement, elimination of child labor and violation of human rights’ by suppliers. Adherence of social standards by suppliers sends strong signals regarding its CSR commitments that improve a firm’s reputation and ultimately its performance.

Sanchez and Sotorrio (2007) proposed a theoretical model of value creation by companies through their reputation. The authors focused on the Social strategy – Reputation – Financial performance paradigm in their study. The study was conducted in the Spanish context and included the 100 most reputable companies (national and foreign) of Spain, as listed in the MERCO index (2004). Financial data were collected from Thomson's Datastream. Differentiation was captured using the ratio of advertising and R&D expenses to the company’s net sales. Competitive intensity of sectors was measured using the mean of concentration ratio for the years 1996, 1997, 1998 and 1999 of the 5 largest firms of each sector (as per the CNAE). Stakeholder Power of a sector was measured using the mean of CSR commitment in the sector, as per the first two digits of CNAE. The model was tested using OLS using SPSS. Results revealed that the relationship between CR and FP is non-linear in nature and an increase in CR fails to increase the financial results of companies. FP was measured using ROA, economic returns and gross operating margin, differentials of economic return and gross operating margin. It was also observed that differentiation strategy of a firm plays a moderating role in the CR and FP relationship. It was also found that greater (lesser) the ratio of a firm’s advertising and R&D

\[ MERCO \] is the Spanish Monitor of Corporate Reputation.

\[ Clasificación Nacional de Actividades Económicas \] published by the Bank of Spain.
expenses, the greater (lesser) the relationship between CR and FP. Power of stakeholders was also found to play a positive and moderating role and the authors concluded that greater (lesser) the power of stakeholders, the greater (lesser) is the effect of CR on FP. The authors finally concluded that the extent that companies benefit from an improved reputation is limited; and value of a firm through reputation is the result of several factors (competitive intensity, differentiation strategy and stakeholder power).

2.6 Competitive Intensity

Intensity of competition is a crucial theory in the field of strategic management as it can affect the performance of a firm. Literature links competitive intensity with concepts such as survival (Barnett, 1997), impact on firm growth (Ang, 2008), the likelihood of collaboration (Ang, 2008), and innovation (Schumpeter, 1942). Competitive Intensity (CI) has been analyzed in various disciplines like industrial organization economics (Porter, 1980), strategy, and ecology (Baum & Mezias, 1992). CI can be defined as the “degree of competition among co-operating partners” (Ramaswamy, 2001, p. 990) in a market. Generally, CI of an industry is judged by the number of players existing players within the industry i.e. market structure. A monopolistic market structure signifies low competition while a perfectly competitive market suggests a high level of CI.

Ang (2008) conceptualized CI as “the extent of tension imposed by the firm’s rivals that might solicit strategic response”. The Resource Based View (RBV) supports CI and argues that a firm’s capabilities are obtained over time and can be attributed to the resource allocation decisions (Wernerfelt, 1984). Though a high CI level indicates industry “immaturity” these firms intend to build capabilities and attain superior resources and differentiation, which leads to
positive performance implications (Porter, 1980). CI determines the outcome of a firm on another firm’s survival (Barnett, 1997), as firms within an industry compete in a diverse manner based on their available resources (Ang, 2008). It influences the need of resources and the effect of resources on the performance of a firm. In a highly competitive industry, firms compete on the basis of resources (Barnett, 1997).

Ramaswamy (2001) explored the interactive function of ownership and competition, and its role in affecting the performance of Private firms and State-owned enterprises (SOEs). The authors theorized that CI moderates the link between ownership and performance. The focus of this study was Indian manufacturing firms (both private and state owned). The paper proposed a model based on the interactive role of ownership and competition on FP. The hypothesis proposed in the study was that: “the performance advantage of privately owned enterprises over state-owned enterprises is positively related to the degree of competitive rivalry within the industry” (pg. 991). Data of 3 years (1990-1992) was gathered from reports published by the Centre for Monitoring Indian Economy (CMIE) as well as from annual reports and balance sheets of each firms. The performance differentials of SOEs and private firms were validated using MANOVA, one-way ANOVAs and t-tests (in the same order). Private firms were found to outperform the SOEs on three performance indicators viz. ROI, ROS and OPEFF. The interaction term between ownership and rivalry was found to be significant. Regression analysis revealed that: (a) Private sector firms perform better than SOEs, and that (b) the differentials between private sector and SOEs increase with an increase in CI. Ownership was found to be highly critical in competitive environments. Alternatively, privatization of monopolies tends to
be successful if accompanied by market reforms permitting free market competition. The study concluded that CI plays a moderating role in the linkage between ownership and FP.

2.7 Social Initiative and Corporate Strategy Fit

Literature suggests the existence of a relationship between CSR and FP (Cochran and Wood (1984); Aupperle et al., (1985); Preston and O’Bannon (1997); Moore (2001); Patten (2002); Orlitzky et al., (2003). Husted (1999) suggested that CSR- performance relationship is an outcome of the fit between the nature of social issues and corresponding responses and strategies by the firm. McWilliams and Siegel (2001) believed that the impact of CSR on performance depend on factors like firm size, product, diversification level, advertising and various macro factors. These factors defining organizational strategy tend to characterize its stakeholder set. Therefore, firms doing social activities that are inconsistent with its corporate strategy do not meet its stakeholders’ expectations. The stakeholder theory believes that an organization’s CSR activities are assessed according to the standards the stakeholders believe in (Wartick, 2002).

2.8 Reputation Management Capability

The earlier sections deal with the CSR - Corporate Reputation- Performance relationship. The underlying belief here is that CSR plays a major role in enhancing corporate reputation. The CSR-CR-FP linkage is also subject to an organization’s efforts to influence the role of reputation in the link. It is therefore implied that CR can and should be managed (Weiss et al., 1999; Bromley, 1993). Capability to manage reputation affects the extent to which CSR is converted into reputation. Firms need to come to a decision as how to manage them, by determining
strategically importance concerns (Mahon and Waddock, 1992; Dutton et al., 1983; Ansoff, 1980).

Organizations may influence stakeholder expectations through effective corporate communications (viz. advertising) and ensuring that the organization’s behavior is reflected in its reputation (Roberts and Dowling, 2002). In order to influence/improve its reputation, the firm must be aware of its reputation. Firms that are not satisfied with their reputations can consequently endeavor to monitor and enhance it; while other firms with a satisfactory reputation may focus on sustaining as well as enhancing their reputation. Therefore, reputation management capability of a firm can be proactive as well defensive (Shimp, 1997; Greening and Gray, 1994). Proactive reputation management refers to organizational actions that enhance perceptions of a firm’s stakeholders towards its performance. Defensive reputation management on the other hand deals with minimizing prior negative image/reputation of a firm through effective corporate communication to significant stakeholders and managing what happens within an organization to affect external perception (Bromley, 2000).

Paton and Williams (1999) analyzed the relationship between advertising and performance in the UK context. The paper adopted two approaches, (i) to examine the relationship between advertising and profitability, and (ii) at avoiding the problem of distinguishing causation, by focusing on the possible role of advertising on performance. Data on advertising intensity for 1992 were taken from a survey of advertising managers of 325 UK firms. Data on turnover, profits and assets were obtained for each firm for the period 1991-1993. After accounting for missing data the sample size was reduced to 272. To account for endogeneity, advertising values
were lagged by one year. To measure advertising, total advertising expenditure and the ratio of advertising to total sales was used. Firm size, market share, industry import intensity; and market growth was also accounted for, which further reduced the number of firms to 242 firms. The study suggests that advertising leads to consistent profits. There was a positive correlation between total advertising and profits, which was influenced by firm size. Probit regression revealed that the effect of firm size was negative and significant. The study provided four conclusions: (i) advertising is correlated with firm level profitability for firms in the consumer goods industry; (ii) there is a stronger correlation for total advertising expenditure as compared to advertising intensity, (iii) correlation with future profitability is higher than that of lagged profitability, (iv) firms that advertise tend to make more profits as compared to firms that do not.

Becker-Olsen, Taylor, Hill, and Yalcinkaya (2011) examined the role of market-oriented CSR communication on customer perceptions’ of an organization and brands in two diverse cultures i.e. United States and Mexico. They focused on differences in consumer expectations in the United States and Mexico; and motives and value of CSR in both the countries. The study scrutinized an existing CSR program managed by Nokia. Data were collected from independent samples by a multicultural marketing research agency. As the study focused on a telecommunications manufacturer, the participants were screened for cell phone ownership. 480 responses each were collected from Mexico and the U.S. Four independent variables were analyzed, namely country, reach, source, and program detail. A 2 (reach: global vs. local) × 3 (source: NPO vs. firm vs. joint) × 2 (program detail: general program description vs. social outcome information) × 2 (country: Mexico and the United States) experimental design was used. The hypotheses were tested by providing respondents with a press release providing
information on program reach, communication source, and style. Results revealed that consumers of both countries believed in CSR and a firm’s role in community development. It was found that U.S. consumers had higher expectation from firms to be more socially responsible as compared to Mexican consumers. It was also found that Mexican consumers perceived higher value in CSR activities as compared to U.S. consumers. A paired-sample t-test for impact of CSR communications on brand attitude and purchase intentions for both countries revealed that intentions are positive before being made aware of CSR information, though Mexican clients are highly affected by such communication.

2.9 Stakeholder Power

Stakeholder: The stakeholder concept dates back to 1963, when it was used in a Stanford Research Institute Memorandum to generalize the belief that managers need be responsive to the stockholders only (Freeman 1984). The original definition of the term ‘stakeholder’ was “the groups without whose support the organization would cease to exist”. The organization as such comprises of many activities and in every stage has many stakeholders. In his book “Strategic Management: A Stakeholder Approach,” Freeman (1984, p. 25) provided a simplified version of the stakeholders of the firm. In the Stakeholder View represented in the book, stakeholders were categorized into eleven categories, namely: Owners, Employees, Customers, Suppliers, Media, Competitors, SIG, Governments, Consumer Advocates, Environmentalists and Local Community Organizations. While Caroll (1989) differentiated stakeholders into primary and secondary, there are authors who provide different views for classifying stakeholders. Stakeholders have been categorized as external or internal, and primary or secondary (Caroll, 1989). According to the traditional classification, internal stakeholders are the ones who are
internal to the organization and have a say in the decision making activities of the firm. Internal stakeholders refer to managers, staff, workers, etc. External stakeholders on the other hand, have a stake in the organization but have no right to take part in the decision making processes. They may be the investors, customers or the society as a whole.

**Stakeholder Power:** The relative importance of particular stakeholders to the organization varies to a great extent. Some stakeholders have the ability to affect FP more than the other stakeholders. Mitchell et al. (1997) opined that stakeholders can affect the organization, and can be framed using stakeholder power. Stakeholders with more power can implement their preferences notwithstanding resistance (Weber, 1947). The resource dependence perspective (Pfeffer and Salancik, 1978) states that an organization relies on its stakeholders for its critical resources, which determines whether an organization is relatively weak or dependent. This matches with the strategic CSR theory given by Baron (2001, 2006), which believe that firms employ social activities for an intrinsic reason i.e. as employees, consumers, or investors are eager to remunerate such activities. This study focuses on the effect of three significant stakeholders’ viz. Suppliers, Customers and Employees on financial performance.

### 2.9.1 Supplier Power (SP)

Good relations with suppliers help reap the benefits of superior offerings and responsiveness (Sisodia, Wolfe and Sheth 2007). Profitable firms consider suppliers to be true partners and promote suppliers to join forces with them in sustainable business. So, firms on reaching higher levels of profitability, quality and productivity; suppliers act as partners, rather than outsiders (Sisodia et al. 2007). Supplier power signifies the ability of suppliers to influence a particular
firm. Intuitively, a firm with higher dependency on suppliers for raw materials is considered to have less power as compared to that of suppliers, i.e. supplier power is higher.

2.9.2 Customer Power (CP)

Customer power (CP) is the ability of a customer to lead a firm to undertake activities it would not have considered otherwise. Narver et al. (1990) believed that firms should understand their target buyers in order to ‘create superior value’ for them. Firms should analyze customer needs and the forces that shape such needs; and respond to such information prudently (Kohli & Jaworski 1990) for better performance. Yau et al. (2007) opined that a company should be in a position to predict, understand and possibly control customer needs and tastes. Heide and John (1992, p. 36) stated that “buyers who account for larger proportions of a supplier’s output may acquire more control because of their influence and prominence.” Managers acknowledge that major customers are the driving force behind numerous activities performed by firms (Boyd, Chandy, Cunha, 2010). Customer needs should therefore be properly responded to, for better performance.

2.9.3 Employee Power

A company needs to tackle the welfare of its employees and meet their needs for better performance (Webster, 1992; Lings et al., 2000). Employees have been considered as major stakeholders (Freeman 1984) as well as non-consumer stakeholders (Greenley and Foxall, 1996). Studies in the field of Human Resources Management have suggested that satisfied employees have a better morale and job motivation (Berman et al., 1999; Becker and Gerhart, 1996) which leads to better organizational effectiveness (Koys, 2001, and success of firms
Employee power of a firm can therefore be defined in terms of the influence employees have over their employers; their ability to bargain as compared to the other firms in the industry. This is one of the major reasons why successful firms value the benefit of employees, customers and shareholders.

Behrend, Becca, Baker, Thompson (2009) examined the effects of environmentally responsible corporate communication on the attitudes of prospective employees. They authors worked on the belief that a firm which effectively communicates its CSR activities, has a good reputation in the eyes of its job applicants. The second objective was to analyze the moderating role of applicant’s personal (environmental) attitudes in the entire process. 183 students attending two public universities in Southeastern US were identified for the study and provided with web site printouts that randomly contained or did not contain messages indicating a firm’s environmental responsibility. They had to rate their attitudes towards the environment (using the New Environmental Paradigm (NEP) Scale developed by Dunlap et al. (2000), organization reputation scale developed by Highhouse et al. (2003), and employment intentions. A regression analysis revealed that the environmentally responsible messages had a positive effect on job pursuit intentions, which was mediated by an organization’s reputation. Also, a prospective employee’s job pursuit intentions did not depend on a participant’s environmental views. The study highlights the significance of CSR related information as a source of attracting new employees. The authors also highlighted that this was a seminal study to demonstrate the mediating role of reputation on CSR and recruitment efforts.
2.10 Research Gaps

2.10.1. The Relationship between CSR Intensity, Corporate Reputation and FP

Though the relationship between CSR and FP has been widely researched (Orlinsky, Schmidt, and Rynes, 2003), there is a great deal of ambiguity in the magnitude and nature of relationship. Studies have shown positive (Dowell, Hart, and Yeung, 2000; Baron, Hajoto and Jo, 2011), negative (Bromiley and Marcus, 1989) as well as neutral (Aupperle et al., 1985) relationship between the two constructs. Adding to the conundrum, the nature of link between CSR, CR and FP is not well established within the existing scholarly literature. Some scholars have argued the presence of a direct linkage between CSR and performance (Aupperle et al., 1985) while others emphasized an indirect relationship (Luo and Bhattacharya 2006; Hsu, 2012; Lai et al. 2010). It is therefore important to investigate the nature and magnitude of the CSR-CR-FP relationship.

2.10.2. Role of External Factors on the CSR-FP Relationship

External factors such as suppliers and level of competitiveness of the industry also tend to play a vital role in the CSR-performance relationship (Sanchez and Sotorrio, 2007). So, there is a need to analyze the CSR – FP link in consideration with the external factors. Neville et al. (2005) have attempted to provide a theoretical model relating Corporate Social Performance (CSP – Neville et al. called CSR as CSP), CR and FP. They however, included all stakeholders as a single category. Freeman (1984, pg. 25) named 11 major stakeholders viz. owners, customers, employees, suppliers, competitors, consumer advocates, media, SIG, governments, environmentalists, and local community organizations. It can be argued that each stakeholder has a different level of influence on the CSR-performance relationship. There is, therefore, a need to empirically validate this model after including the major stakeholders of a firm.
2.10.3. Stakeholder Power and FP

Performance of a firm tends to vary with different levels of resource allocation by the stakeholders to an organization (Neville et al. 2005). These allocations stem from underlying instrumental and normative motivations of the stakeholders. It is therefore imperative to explore the process of creating such instrumental and normative motivations. Stakeholders readily “trade-off” one reputation for another (Mahon, 2002) and have the ability to affect the organization via their stakeholder power. Stakeholders have varied expectations from a firm, and hence assess an organization in their own unique manner (Wood and Jones, 1995). Sen and Bhattacharya (2001) opined that customers make their purchase decisions on the basis of their concern and support for pertinent social issues. It is therefore necessary to determine the relative influence of instrumental and normative involvement of CSR and its effect on the various dimensions of social responsibility.

2.10.4. CSR Intensity and FP in the Indian context

Companies in emerging economies face a lot of pressure to behave in a more socially responsible way (Gao, 2009; Visser 2008; Alon et al. 2010; Mitra, 2012). Given the mandatory CSR expenditure in India, firms are now expected to contribute to social causes. The empirical studies on CSR spending and firm performance link have been until now carried out mostly in developed economies. Many scholars have pointed out that the business environment of emerging economies is quite different from that of developed economies (Khanna and Palepu, 2000). This study therefore intends to validate a model that integrates CSR intensity and its potential impact on FP in Indian context. If a positive linkage between CSR and FP is revealed,
the mandated CSR expenditure can henceforth be considered as “investments” and companies will be motivated to actively participate in social causes.

2.10.5. The Relationship between CSR Intensity, Corporate Reputation and FP

Though the relationship between CSR and FP has been widely researched (Orlinsky, Schmidt and Rynes, 2003), there is a great deal of ambiguity in the magnitude of relationship. Studies have shown positive (Dowell, Hart, and Yeung, 2000; Baron, Hajoto and Jo, 2011) negative (Bromiley and Marcus, 1989) as well as neutral (Aupperle et al., 1985) relationship between the two constructs. Adding to the conundrum, the nature of link between CSR and FP is not well established within the existing scholarly literature. Some scholars have argued the presence a direct linkage between CSR and performance (Aupperle et al., 1985) while others emphasize an indirect relationship (Luo and Bhattacharya 2006; Hsu, 2012; Lai et al. 2010). It is therefore imperative to investigate the nature and magnitude of the CSR-Profitability relationship.

2.10.6. Role of External Factors on the CSR-FP Relationship

External factors such as differentiation, competitiveness of the firm also tend to play a vital role in the CSR-performance relationship (Sanchez and Sotorrio, 2007). So, there is a need to analyze the CSR – FP link in consideration with the external factors as well. Neville et al. (2005) have attempted to provide a theoretical model relating CSP, CR and FP. They however, included all the stakeholders as a single construct which restricts the scope of the study. Freeman (1984, pg. 25) named 11 major stakeholders viz. owners, customers, employees, suppliers, competitors, consumer advocates, media, SIG, governments, environmentalists, and local community organizations. It can be argued that each stakeholder has a varying degree of influence on the
CSR-performance relationship. There is hence, a need to empirically validate this model after including the major stakeholders of a firm.

### 2.10.7. Stakeholder Power and FP

Performance of a firm tends to vary with different levels in the stakeholders’ resource allocation towards an organization (Neville et al. 2005). These allocations stem from underlying instrumental and normative motivations of the stakeholders. It is therefore imperative to explore the process of creating such instrumental and normative motivations. Stakeholders readily “trade-off” one reputation for another (Mahon, 2002) and have the ability to affect the organization via their stakeholder power. Stakeholders have varied expectations from a firm, and hence assess an organization in their own unique manner (Wood and Jones, 1995). Sen and Bhattacharya (2001) opined that customers make their purchase decisions on the basis of their concern and support for pertinent social issues. It is therefore necessary to determine the relative influence of instrumental and normative involvement of CSR and its effect on the various dimensions of social responsibility.

### 2.10.8. CSR Intensity and FP in the Indian context

Companies in emerging economies face a lot of pressure to behave in a more socially responsible way (Gao, 2009; Visser 2008; Alon et al. 2010; Mitra, 2012). Given the mandatory CSR expenditure in India, firms are now expected to contribute to social causes. A positive impact of CSR on performance would encourage firms to analyze their expenditures wisely and choose their cause strategically. The empirical studies on CSR firm performance link have been until now carried out mostly in developed economies. It has also been opined that the business
environment of emerging economies is quite different from that of developed economies (Khanna and Palepu, 2000). This study therefore intends to validate a model that integrates CSR intensity and its potential impact on FP amidst the dynamics of reputation management capability of a firm and stakeholder power of varying degrees in the context of emerging nations. If a positive linkage between CSR and FP is evidenced, then the mandated CSR expenditure can henceforth be considered as “investments” and companies will be motivated to actively participate in social causes.

2.11 Chapter Conclusion
This chapter described in detail literature related to the concept of CSR and related micro and macro factors. The chapter begins by discussing CSR, its antecedents and consequences and moves on to discuss the important stakeholders that affect performance. The literature also covers the external factors affecting the CSR-performance relationship. The next chapter builds on the literature discussed in this chapter and discusses the gaps in detail.