CHAPTER 6

CONCLUSIONS, IMPLICATIONS, LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

6.0 Chapter Introduction

This chapter concentrates on the plausible theoretical and managerial implications and conclusions of the study. The chapter has been divided into three parts. The first part deals with the theoretical contribution of this dissertation while, the second part emphasizes on the contribution of this study for the managerial practice. The third and final section discusses the limitations of the study as well as the possible directions for future research.

6.1 Conclusions

This study was conducted with four major objectives:

a. To test the relationship between CSR-CR-FP;

b. To analyze the effects of external factors like Social Initiative and Corporate Strategy Fit, Reputation Management Capability in the CSR-FP;

c. To capture the role of external (Competitive Intensity, Stakeholder Power) and internal factors (reputation management capability) affecting the CR-FP relationship in the Indian context; and

d. To test role of three important stakeholders’ viz. employees, customer and suppliers, in the CSR-CR-FP link (as suggested by the review of literature).
The impact of corporate reputation on financial analysis was captured using three measures of performance namely: Net Profit, PB Ratio and ROCE. The results were found to similar for all the three analyses. In all the three analyses, the relationship between CSR Intensity and Corporate Reputation was found to be positive and significant. This implies that higher amount of CSR spending improves the corporate reputation of a firm. Firms involved in CSR activities are well known and are reputed as compared to their industry counterparts who are less involved in such social activities. The findings of the study have further been triangulated using a few important case analyses, to validate the empirical findings. Cases focusing on the CSR activities and relationship with different stakeholder groups have been used for the purpose. The cases analyzed are Dr. Reddy’s Labs, Reliance Industries and Thermax India Ltd. (Annexure 1, 2 and 3).

The analysis also revealed that Social Initiative-Corporate Strategy fit plays a significant role in improving the corporate reputation of a firm (Table 6.3). This re-affirms the fact that when a firm aligns its CSR activities with its organizational strategy, there is an improvement in its reputation. This added with higher advertising and promotional activities influence corporate reputation in a positive manner. Competitive Intensity does not affect the financial performance of the firm, due to the fact that highly reputed firms already have an edge over the other players within the industry. For example, it is very difficult for competition to influence the performance of highly reputed firms like Siemens Ltd. (Capital Goods); Ultra Tech Cement, ACC Ltd. (Cement Industry); Whirlpool of India Ltd. (Consumer Durables Industry). Interestingly, the three set of stakeholders i.e. suppliers, customers and employees expected to have a negative influence on the CR- FP relationship had no significant effect.
The cases used in the study also revealed similar trends. Dr. Reddy’s Labs, Reliance Industries Ltd. and the Thermax group are vivid instances of profitable and reputed firms that invest in social activities for philanthropic as well as strategic purposes. Dr. Reddy’s Labs provides education to prospective students and trains them for future employment purposes, having a higher power over its potential employees. Reliance Industries is highly involved in improving the livelihood, health and education of the society to name a few. Thermax is reputed for its concerns about the safety of its employees and has various audits and checks in place. It follows all the labor laws and discourages the use of compulsory labor, or child labor and mandates all its vendors to follow similar principles in their business. Suppliers of Thermax are also monitored strictly, prohibiting any form of unhealthy competition or illegal activities.

6.2 Implications for Theory

Literature provides theoretical as well as empirically proven relationships of CSR with firm profitability (Aupperle, Carroll, Hatfield, 1985; Griffin and Mahon, 1997), and positive (McGuire et al., 1988; Mishra et al. 2012) and negative (Garcia-Castro et al. 2008) relationship between CSR and FP. The current study analyzed the CSR-FP relationship in the Indian context. Previous studies have not properly integrated the concepts of CSR, CR, FP and accounting for external factors like level of competition, customer power and supplier power (Neville et al. 2005; Mishra et al. 2012). Using Neville et al.’s (2005) model as the base which makes an attempt to capture significant external factors, this study attempted to validate the model by integrating external factors and testing it in the Indian context. This will be a significant contribution to the existing body of CSR literature as it increases the scope of the CSR-CR-FP paradigm.
Previous studies like Mishra et al. (2012) have investigated the role of CSR in improving the financial performance, in the Indian context using perceptual data collected from top-level managers. This approach can be criticized on the grounds that the data are affected by the biases of the respondents. Respondents can be argued to have overemphasized the positive aspects of CSR and ranked their firms on a higher level than they actually are. This study overcame that deficiency by using audited financial data of the firms.

We found that all the prior studies using the construct of CR have used the Fortune 500 list which encompasses companies at a global level, mostly by researchers in developed world. This study made a major contribution by pioneering the use of Fortune India 500 list in CR related studies. This opens an avenue for future CR based studies in the Indian context.

One of the major contributions of the study is converting the constructs such as reputation management capability, employee power, supplier power and customer power into quantifiable and measurable units using financial data after conducting a detailed literature review and by conducting a number of vigorous focus group discussions. This quantification method can be followed by researchers in future studies.

6.3 Implications for Managers

Past studies have validated that firms spending on philanthropic and CSR activities tend to enhance the firm’s reputation, as perceived by its customers. Firms therefore need to understand the dimensions of reputation such that they can develop and improvise existing strategies to monitor and modify stakeholder perceptions about the firm. One of the major findings of this
study is that stakeholders have no power over a firm that is highly reputed. Taking a clue, managers should take extensive efforts to improve the reputation of a firm that will provide them an edge over their stakeholders. However, here the underlying assumption is that firms are reputed due to their CSR activities (leaving no scope for corporate irresponsibility).

The current study also reveals the significance of effective reputation management. Results of this study indicated that advertising CSR activities provides an edge to firms in enhancing their reputation. The results also suggest that a firm that strategically invests in CSR and communicates it effectively to its stakeholders gets significant results. So managers not only need to be responsible, but also publicize it to significant stakeholders to reap the long-term benefits.

This study tried to provide an outlook that socially responsible activities tend to differentiate the firm from other firms (as perceived by customers, suppliers and employees). From the perspective of the customer, factors like satisfaction, trust and reputation affect their purchase decisions and finally the performance of a firm. Customers purchase from reputed/known firms, and literature suggests that customers purchase the products of a firm that is socially responsible as they feel that they are also being socially responsible by purchasing products of that company (O¨berseder, Schlegelmilch and Gruber, 2011). Managers frequently face fundamental issues like: whether to ignore consumers’ interest in CSR; and whether to incorporate CSR issues in their marketing activities. So, from a managerial stand, addressing these issues in their advertising activities will help managers in understanding the role of CSR in and improved reputation, and predict the role of corporate reputation in the CSR-FP linkage. This study further
contributes by answering the question whether reputation management capability of a firm positively affects the FP of the firm.

6.4 Limitations of the Study

Despite the prudence used in the sample selection and data analysis, this study has many limitations. One of the major limitations of the study is the data used in the study. This study used data from only a select group of 36 industries, and data were collected from only 361 firms out of the existing thousands of firms in India. So, a large number of firms have been excluded. Secondly, most of the firms selected are highly reputed firms in their respective industries. Hence their reputations seem to have reduced the influence variables like stakeholder power on CSR_CR_FP relationship. Including other industries and firms with high, medium and low reputation ranks in future studies may provide different results. An industry-wise analysis, using individual firms of the industry would also help managers of a particular industry to take appropriate measures. This could not be undertaken in the current study due to unavailability of data, and in some cases unwillingness of firms in sharing their CSR spending during a year. This study completely relies on the CSR information provided by the firms. The Companies Bill, 2013 mandated Indian firms to spend and report their CSR expenditures. Hence, most of the companies did not report their CSR expenditure prior to the mandated period. The period of analysis of this study captures data for the year 2011, 2012 and 2013 that lacks CSR expenditure data for several companies for the years 2011 and 2012. This criterion caused the elimination of numerous firms from the initial sample due to incomplete CSR data. Most of the companies provided an estimated data for CSR amount rather than the actual expenditure both at a firm level and at the sector level. A sector wise data on CSR expenditure would have enriched the outcome and quality of the study.
This study used Fortune India 500 ranking (following prior studies), ET ranking and Business Standard ranking to capture the construct of Corporate Reputation. However, these firms have been ranked on the basis of their performance as well. This is one of the major reasons why the study failed to find any significant impact of Corporate Reputation on performance. Data from lowly reputed firms could not be used as most of these firms are unlisted and do not undertake any CSR activities. Moreover, even if they spend on CSR activities they do not report it. This was one of the bottlenecks in collecting CSR data from lowly reputed firms and hence only a few of them which reported CSR spending could be included in the sample of this study.

This study used quantitative measure of CR (i.e. ranks). A qualitative analysis to capture the reputation of an organization may provide different results. More effective/ reliable methods of capturing Corporate Reputation need to be therefore, established. This study quantified each of the variables used in financial terms, but variables such as customer power, supplier power and employee power are better explained qualitatively. The study could not use qualitative data due to obvious issues such as: the large number of industries considered; and difficulty in gathering data from individual stakeholders from each firm of all 36 industries. Focusing on a single industry and on every stakeholder would definitely provide different results.

6.5 Scope for Future Research

Future studies should be conducted overcoming the limitations described above. Future studies could use the measurements (in accounting terms) provided by this study. The proposed model was tested in the Indian context. Similarly, it can be tested in other countries to improve its
external validity. This study used a lag of one year for profits and CSR activities; however, a longitudinal analysis taking lags of more than one year would provide more accurate results. Future studies could take the lag of reputation management capability and its effects on performance in the subsequent periods as reputations are not built immediately, but over a period of time. As discussed above, The Companies Bill, 2013 mandated Indian firms to spend and report their CSR expenditures. So, studies can be undertaken in the Indian context after a few years, when CSR by each firm provides it with some competitive advantage with its growing reputation.

This study used reputation ranks to capture the corporate reputation of a firm. As discussed above (in the limitations section), reputation of an organization can be better measured using qualitative techniques. Future studies can try to come with better ways of capturing corporate reputation. Though this study has been complemented with few case studies, future studies can use in-depth case by case analysis both at the firm level and the industry level to get a better understanding and to substantiate the provided framework.

This study focused on highly successful and highly reputed firms in the Indian context, where the stakeholders considered for analysis had no power. These reputed firms were unaffected by all the stakeholders. Future studies should consider all the firms of an industry, both reputed and non-reputed, which may provide different dynamics amongst the firm and its stakeholders that observed in this study. Focusing on a single industry would hence be more fruitful in terms of testing the model, and un-standardized data can be used. However, qualitative analyses including case studies, interviews of each stakeholder group may provide an insight into the true nature of
things. Variables such as stakeholder power can be better explained in qualitative terms. The role of competition was found to be insignificant amongst reputed firms, so future studies could keep this in mind and modify their propositions. Moreover, the role of competition in the CSR-reputation linkage can also be explored. This study was conducted from the organizational perspective. It model can also be tested from the customers’ perspective and provide a clarity on customer’s perceptions regarding the reputation and performance of a firm.