

Corporate Social Responsibility and Firm Reputation in Mexican Small Business

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Abstract

In the current literature of business and marketing science the firm reputation, it is considered not only as one of the most important business strategies, but also as an essential intangible resource to achieve more and better results. However, the results can be better when the activities of corporate social responsibility (CSR) and corporate reputation are related, since CSR actions that are adopted and implement by the companies, particularly small and medium-sized enterprises (SMEs), will have positive, negative or neutral effects on the reputation level of companies, since precisely this inconsistency in the results makes it necessary conducting more studies providing theoretical and empirical evidence of the effects exerted by CSR activities in the firm's reputation. Therefore, the aim of this empirical study is the analysis and discussion of existing effects between CSR activities and the reputation level of SMEs, using a sample of 308 companies in Mexico. The results obtained show that CSR activities have significant positive effects on the level of the reputation of SMEs.

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Keywords: Corporate social responsibility, firm reputation, small business.

1 Introduction

The reputation has not only been analyzed and discussed in the current literature of business administration and marketing, as one of the most important intangible resources of firms, particularly small and medium-sized enterprises (SMEs) (Hall, 1993), but also as one of the core values of business (Gibson *et al.*, 2006) and its

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direct relationship to the activities of corporate social responsibility (CSR) (Melo & Garrido-Morgado, 2012). Therefore, there are several theoretical and empirical studies published in the literature of the marketing field, in which it is related directly the firm reputation with the level of firm performance (Fombrun & Shanley, 1990; Brown & Perry, 1994; Deephouse, 2000), although most of them have focused on large multinational companies, and are relatively few studies that have analyzed the firm reputation and CSR activities (Walker & Dick, 2014).

In this sense, a good firm reputation, especially SMEs, can generate various benefits such as a significant reduction in total costs (Fombrun, 1996; Deephouse, 2000), a change in the prices of their products or services (Fombrun & Shanley, 1990; Fombrun, 1996; Deephouse, 2000; Rindova *et al.*, 2005), the generation of barriers that slow competitiveness of major competitors (Milgrom & Roberts, 1982; Fombrun, 1996; Deephouse, 2000), increasing significantly the margin of profits (Roberts & Dowling, 2002), generates a higher level of attraction to new consumers (Fombrun, 1996; Turban & Greening, 1997), for new investors in organizations (Srivastava *et al.*, 1997), and new clients (Fombrun, 1996), for which the firm reputation is considered one of the business strategy that not only generate a higher level of income, but also healthier finances (Fombrun, 1996).

Also, a positive firm reputation generates a major level of ability by the company to attract employees more compromised with the organization (Gatewood *et al.*, 1993), a higher level of satisfaction by the employees and workers (Riordan *et al.*, 1997), a significant increase in the image of businesses brands, brands equity for the generation of improved or new products or services and the penetration of new markets or increasing current participation with the market where it participates (Dowling, 2006). Thus, corporate reputation also positively affects the level of financial performance and investment in organizations (Bear *et al.*, 2010) and, according to Dowling (2006), the most successful companies and that generally have higher levels of sustainable business performance are those companies with a higher level of firm reputation.

In addition, theoretical and empirical studies published recently in literature have identified other important advantages that businesses acquire when they have a good reputation among those found, for example, a significant increase in the level of customer satisfaction (Bontis *et al.*, 2007), a better level of relationship with business partners (McCorkindale, 2008), the realization of communication campaigns more effective and efficient (Ellen *et al.*, 2006) and, finally, the adoption of best CSR programs for social environmental and economic causes to society in general (Gardberg & Fombrun, 2006).

Therefore, this empirical study will examine the relationship between CSR activities and firm reputation with SMEs, as they are precisely the CSR actions that generate greater benefit on the firm reputation (Bear *et al.*, 2010). Thus, following the recommendations of Bear *et al.* (2010), Melo and Garrido-Morgado (2012), Elving (2013), den Hond *et al.* (2013) and to increase the theoretical and empirical studies linking CSR activities and the firm reputation, the main contribution of this empirical study is the analysis and discussion of the effects

that CSR have on firm reputation of the SMEs.

The rest of the work is organized as follows: in the second section the theoretical framework and empirical previous studies are revised and research hypothesis arises; in the third section the methodology, the sample and the variables used are presented; in the fourth section the results obtained are shown and; finally, in the fifth section the main conclusions and discussion of the empirical study are presented.

2 Preliminary Notes

If we consider that in the current literature of business and marketing science the concept of reputation, represents all the perceptions of individuals of a particular company (Elving, 2013), then the firm reputation can be defined as “individual representation and collective (induced through a communication program or past experiences), that customers and consumers have about a particular company” (Cornelissen, 2008: 18). Therefore, the perception that customers and consumers have of a business, specifically SMEs, is generally influenced by their CSR activities, which will generate a high level of firm reputation, good or bad, this depending on how companies seek to be seen through the eyes of consumers and customers (Elving, 2013).

So when customers and consumers are informed effectively and efficiently of the CSR activities developed by companies, including SMEs, its knowledge and perception about the products or services of these generates a certain level of reputation of the organization (Brown & Dacin, 1997; Bae & Cameron, 2006), whereby the level of firm reputation can also be considered as a reference to the judgment of behavior that the consumers realize, through the influence of the various activities of CSR (Elving, 2013). Consequently, a bad firm reputation can dramatically increase the level of skepticism that customers and consumers have about CSR activities of companies, on the other hand a good firm reputation can generate better results (Elving, 2013).

In this regard, there have been many efforts by researchers and academics to contribute to analyze the relationship between CSR and firm reputation, for example some theoretical studies (Carroll, 1979; Freeman, 1984; Wartick & Chochran, 1985 ; Donaldson & Preston, 1995; Jones, 1995; Mitchell *et al.*, 1997; Gardberg & Fombrun, 2006), and some other empirical studies (McGuire *et al.*, 1988; Fombrun & Shanley, 1990; Griffin & Mahon, 1997; Waddock & Graves, 1997; Hillman & Keim, 2001; Roberts & Dowling, 2002; Yoon *et al.*, 2006; Bear *et al.*, 2010; Melo & Garrido-Morgado, 2012; Eberle *et al.*, 2013; Elving, 2013; den Hond *et al.*, 2013; Wie *et al.*, 2014; Walker & Dyck, 2014).

However, there are also some theoretical and empirical studies published in the current literature of the field of marketing, that when analyzing the existing relationship between CSR activities and firm reputation found negative results (Schnietz & Epstein, 2005; Berman *et al.*, 2006), contradictory (Griffin & Mahon,

1997) and inconclusive (Hillman & Keim, 2001; Backhaus *et al.*, 2002; Porter & Kramer, 2006). This apparent lack of consensus may be a clear consequence that the CSR have been relatively recently incorporated in the analysis of business management (Lantos, 2001; McWilliams *et al.*, 2006; Windsor, 2006; Dahlsrud, 2008), or they not have been addressed and widely discussed in the field of marketing (Brown & Perry, 1994; Rowley & Berman, 2000; Orlitzky & Benjamin, 2001; Schnietz & Epstein, 2005; Bird *et al.*, 2007; Blomgren, 2010).

In addition, there are relatively few studies that have provided empirical evidence in the analysis and discussion of the effects exerted by CSR on the firm reputation (Turban & Greening, 1997; Brammer & Pavelin, 2006), and the few studies published in the literature has been considered CSR as a one-dimensional and not multidimensional structure (Fombrun & Shanley, 1990; Roberts & Dowling, 2002), since usually in several published studies have analyzed the effects between CSR and firm reputation, have considered only the social responsibility as a measure of CSR activities (Griffin & Mahon, 1997), or well combined with other measurements (McGuire *et al.*, 1988; Stanwick & Stanwick, 1998; Schnietz & Epstein, 2005), but in both cases it has been correlated only to the firm reputation with CSR (Griffin & Mahon, 1997).

There are also other studies that have considered both CSR activities as the firm reputation separately and as two independent structures (Turban & Greening, 1997; Ruf *et al.*, 1998; Harrison & Freeman, 1999), but in econometric and conceptual models generally CSR activities are considered as independent variables that generate a significant positive impact on the level of firm reputation (Melo & Garrido-Morgado, 2012). Therefore, in most studies published in the literature of marketing that analyze CSR activities, commonly associates with the generation of competitive advantages (Russo & Fouts, 1997; Turban & Greening, 1997; Roberts & Dowling, 2002; Alniacik *et al.*, 2010), and there are relatively few studies of CSR that are oriented on the effects that are exerted on the firm reputation (Melo & Garrido-Morgado, 2012).

In this sense, there exists a greater amount of theoretical and empirical studies published in the literature, analyzing CSR activities as one of the main resources that generate competitive advantages (McGuire *et al.*, 1988; Jones, 1995; Russo & Fouts, 1997; Gardberg & Fombrun, 2006; Porter & Kramer, 2006; Berrone *et al.*, 2007), but more theoretical and empirical evidence is needed on the effects of CSR activities at the firm reputation (McWilliams & Siegel, 2001). Therefore, exists a strong critique in the literature of researchers and academics because they have only focused on providing evidence of the positive impact of CSR activities in the competitive advantages (Griffin & Mahon, 1997; Backhaus *et al.*, 2002; Berman *et al.*, 2006), and the relationship between CSR and firm reputation has been quite neglected (Quazi & O'Brien, 2000; Cuesta-Gonzalez *et al.*, 2006; Moneva & Ortas, 2008).

Thus, it is possible to find in the literature opinions of researchers and academics who believe that CSR activities must be considered as strategic, and that investment made by enterprises in adopting and implementing CSR activities

must be aimed not only for better business efficiency (McGuire *et al.*, 1988; Quazi & O'Brien, 2000; Orlitzky *et al.*, 2003), but also to achieve a better level of firm reputation (Shepard *et al.*, 1997; Buchholtz *et al.*, 1999; Jones *et al.*, 2007; Scholtens & Zhou, 2008), for which the incorporation of trading partners in the development of actions and CSR activities will be necessary, since the participation of the partners is considered as a strategy used by companies to achieve their objectives and goals (Melo & Garrido-Morgado, 2012).

Similarly, there is in the current literature different levels of commitment and CSR activities that have adopted and implemented enterprises, particularly SMEs, both operating in different sectors and countries such as those belonging to the same sector and country (Habisch *et al.*, 2005; den Hond *et al.*, 2007). Therefore, companies can have not only different motives for the development of CSR activities, but also a diverse variety of actions and activities that manage differently, therefore obtaining different levels of firm reputation (Garriga & Scrum, 2004). Also, CSR activities that adopt and implement businesses are also perceived differently by customers and consumers, as some consider them positive, others neutral and others negative, which provokes consumers of a product or service, have a different perception of these and, as a result, the reputation of the company (den Hond *et al.*, 2013). Thus, Brown and Dacing (1997) and Sen and Bhattacharya (2001) concluded that several studies published in the current literature of business and marketing science, considered important that in the analysis of the effects exerted by CSR activities in firm reputation the consumers should be taken into account. Also, Du *et al.* (2007) considered that those companies that have a higher level of integration of their CSR activities with business strategies, generally the consumers of the products and services they produce, not only have a positive image of the brands of the company but also they believe that this type of social activities are essential, which generates a higher level of purchase on their products or services, greater long-term loyalty of the brand of products or services and enhanced firm reputation.

Meanwhile, Yoon *et al.* (2006) found in their study that the relationship between CSR activities and firm reputation, in addition to generate more significant positive effects could also generate a narrow relationship with customers and consumers if they perceive that such actions have a social impact, economic and environmental. In addition, Vanhamme and Grobbsen (2009) proposed that in periods of economic and social crisis, companies should adopt and implement actions and CSR activities, as they have greater opportunities for both customer and consumers preferences of buying their products or services, and thus generates a higher level of firm reputation, but those companies that have a high level of firm reputation, generally the crisis will cause few negative effects.

Additionally, Pfau *et al.* (2008) concluded that when companies make a good campaign communicating their CSR activities, commonly generates both a strong positive influence on public opinion and consumers, thereby allowing an increase in the level of perception of both the image of the company and its level of credibility and firm reputation. In addition, Peloza and Falkenberg (2009)

considered that the companies that develop CSR activities, should work together with other firms and non-governmental organizations for the execution of social and philanthropic actions, because this facilitates the development of the firm reputation. In this context, there is theoretical and empirical evidence in the literature that establishes a significant positive relationship between CSR activities and the firm reputation (Fombrun, 1996; Shepard *et al.*, 1997; Buchholtz *et al.*, 1999; Brammer & Pavelin, 2006; Jones *et al.*, 2007; Scholtens & Zhou, 2008; Bear *et al.*, 2010; Elving, 2013; den Hond *et al.*, 2013; Melo & Garrido-Morgado, 2014). Thus, considering the information presented above is possible to establish the following research hypothesis:

H1: At a higher level of implementation by CSR activities, higher level of firm reputation.

To address the proposed hypothesis of this empirical study, the business directory Business Information System of Mexico in 2016 for the state of Aguascalientes was considered appropriate to use, which had a record of 6,662 companies to January of the same year, but for purposes of this research only companies that had registered 5 to 250 workers were considered, obtaining a final business directory of 1,334. In addition, a survey by personal interview applied to managers and/or owners of SMEs in a sample of 308 companies, which selected by simple random sampling with a maximum error of $\pm 5\%$ and a level reliability of 95%, applying such surveys during the months of January to April 2016. In addition, the CSR activities of companies were measured through three dimensions: social, environmental and economic. Thus, social responsibility was measured by means of a scale of 15 items, environmental responsibility was measured with a 7-item scale, and economic responsibility was measured with a 9-item scale, and being adapted to the European Union (2001), Bloom and Gundlach (2001), Bigné *et al.* (2005) and Alvarado and Schlesinger (2008). In addition, the scale for measuring firm reputation was adapted from Alvarado and Schlesinger (2008), and was measured using a scale of 4 items. All the items of the scales used are constructed using a Likert scale of 5 positions, with 1 = strongly disagree to 5 = completely agree as limits. The evaluation of the reliability and validity of CSR activities and the level of firm reputation, was conducted through Confirmatory Factor Analysis (CFA) with the maximum likelihood method and using the EQS 6.2 software (Bentler, 2005; Brown, 2006; Byrne, 2006). In addition, Cronbach's alpha indices and Index Composite Reliability Index (CRI) for measuring reliability (Bagozzi & Yi, 1988) were used, and recommendations were considered by Chou *et al.* (1991) and Hu *et al.* (1992) with respect to the statistical correction of the theoretical model when considering that the normal data is present, as well as robust statistical proposed by Satorra and Bentler (1988) to provide a better statistical fit to the data. The results obtained from the application of CFA are shown in Table 1 and indicate that the model of the relationship between CSR and firm reputation have a good fit of the data ($S-BX^2 = 739.528$; $df = 318$; $p = 0.000$; $NFI = 0.803$; $NNFI = 0.822$; $CFI = 0.824$; $RMSEA = 0.066$), all items of the three dimensions of CSR and firm

reputation are significant ($p < 0.01$), the size of all standardized factor loadings are greater than 0.60 (Bagozzi & Yi, 1988), Cronbach's alpha indices and CRI are greater than 0.70 and Extracted Variance Index (EVI) is greater than 0.50 (Fronell & Larcker, 1981). These values show the existence of sufficient evidence of reliability and convergent validity, which justifies the internal reliability of the two scales used (Nunally & Bernstein 1994; Hair *et al.*, 1995).

Table 1: Internal consistence and convergent validity evidence of the theoretical model

Variable	Indicator	Factorial Loading	Robust t-Value	Cronbach's Alpha	CRI	EVI
Social Responsibility	RSS6	0.690***	1.000 ^a	0.932	0.933	0.587
	RSS7	0.689***	6.684			
	RSS8	0.655***	6.373			
	RSS9	0.616***	5.982			
	RSS10	0.803***	7.593			
	RSS11	0.741***	8.424			
	RSS12	0.794***	8.682			
	RSS13	0.837***	8.867			
	RSS14	0.873***	9.009			
	RSS15	0.896***	8.691			
Environment Responsibility	RSA1	0.681***	1.000 ^a	0.911	0.912	0.597
	RSA2	0.696***	6.569			
	RSA3	0.731***	8.088			
	RSA4	0.767***	8.257			
	RSA5	0.793***	8.368			
	RSA6	0.837***	8.538			
	RSA7	0.884***	8.332			
Economic Responsibility	RSE4	0.781***	1.000 ^a	0.895	0.895	0.592
	RSE5	0.680***	6.993			
	RSE6	0.642***	8.696			
	RSE7	0.894***	9.907			
	RSE8	0.687***	9.099			
	RSE9	0.893***	9.906			
Firm Reputation	REE1	0.822***	1.000 ^a	0.905	0.906	0.708
	REE2	0.770***	15.228			
	REE3	0.888***	18.562			
	REE4	0.880***	18.359			

$$S-BX^2 (df = 318) = 739.528; p < 0.000; NFI = 0.803; NNFI = 0.822; CFI = 0.824; RMSEA = 0.066$$

^a = Constrained parameters to such value in the identification process

*** = $p < 0.01$

Evidence of discriminant validity of the model of CSR activities and firm reputation is provided through two tests shown in Table 2. First, the *confidence interval test* is presented (Anderson & Gerbing, 1988), which states that the range of 95% confidentiality none of the individual elements of the latent factors of the correlation matrix contains the value of 1.0. Second, the *test of variance extracted* is presented (Fornell & Larcker, 1981), which states that the variance extracted between each pair of structures is less than its corresponding EVI. Therefore, according to the results of both tests it is possible to conclude that these tests show sufficient evidence of discriminant validity of the theoretical model.

Table 2: Discriminant validity measuring of the theoretical model

Variables	Social Responsibility	Environmental Responsibility	Economic Responsibility	Firm Reputation
Social Responsibility	0.587	0.060	0.051	0.076
Environmental Responsibility	0.189 – 0.301	0.597	0.076	0.048
Economic Responsibility	0.180 – 0.272	0.236 – 0.316	0.592	0.079
Firm Reputation	0.229 – 0.325	0.162 – 0.278	0.232 – 0.332	0.708

The diagonal represents the Extracted Variance Index (EVI), whereas above the diagonal the variance is presented (squared correlation). Below diagonal, the estimated correlation of factors is presented with 95% confidence interval.

3 Main Results

To address the hypothesis in the model of CSR activities and firm reputation, a structural equation model was applied by using the EQS 6.2 software (Byrne, 2006; Brown, 2006; Bentler, 2005), where the nomological validity was examined through the test of Chi squared, which consisted of comparing the results obtained between the theoretical model and the measurement model, indicating these results that the differences between the two models are not significant, allowing us to offer an explanation consistent with the observed relationships between the latent structures (Anderson & Gerbing, 1988; Hatcher, 1994). Table 3 presented below shows in greater detail these results.

Table 3: SEM results from the theoretical model

Hypothesis	Structural Relationship	Standardized Coefficient	Robust t-Value
H1: Higher level of CSR, higher level of firm reputation.	CSR → Firm Reputation	0.708***	6.466
$S\text{-}BX^2$ (df = 315) = 723.738; $p < 0.000$; NFI = 0.807; NNFI = 0.827; CFI = 0.830; RMSEA = 0.065			

*** = $P < 0.01$

Table 3 shows the results obtained from the application of structural equation model, and with respect to the research hypothesis raised H1, the results obtained $\beta = 0.708$, $p < 0.01$ indicate that CSR activities have significant positive effects on firm reputation of SMEs. Therefore, it is possible to conclude that CSR actions to adopt and implement SMEs will have serious repercussions on your reputation level.

5 Conclusion

The results above allow us to conclude, on the one hand, there is a significant positive relationship between CSR activities and firm reputation of SMEs, so this study provides empirical evidence that open discussion of the existence of CSR activities in the SMEs, and that these activities are closely related with the level of firm reputation. Therefore, such the program like the actions and CSR activities to adopt and implement companies, particularly SMEs, will be essential to obtain further significant positive effects on the level of firm reputation, which may lead not only in obtaining more sustainable competitive advantages, but also better business results among which is a higher level of business performance.

On the other hand, it is also possible to conclude that the firm reputation of SMEs will be subject to communication program over the actions and CSR activities that they perform, as customers and consumers generally tend to increase the purchase of products or services of those organizations that support constant social, cultural and philanthropic activities. Therefore, a program of effective and efficient communication will enable customers and consumers of the products or services produced by SMEs, to know and value the activities by CSR that they implement for the benefit of the community where they are established, which can not only generate more and better competitive advantages for businesses, but also a higher level of firm reputation.

Similarly, the results of this empirical study have several implications both for companies and for managers. Thus, a first of these implications is that if SMEs

want to significantly improve their firm reputation level then in the first instance will have to adopt and implement a series of CSR activities, it is precisely this kind of actions that facilitate the increased level firm reputation of SMEs. Therefore, all departments or functional areas of the organization should work in coordination, not only for the development of the program of actions and CSR activities to be implemented by the SMEs, but also to communicate effectively and efficiently each and every one of these CSR activities.

In addition, another implication is that companies need to work in coordination with its major trading partners and suppliers, in the design and implementation of activities and actions by CSR, it is precisely the suppliers who have more contact with customers and consumers of the products or services generated by SMEs. Otherwise, SMEs may face many problems both in the design and in development of these CSR activities, as commonly they do not have a direct count on the final consumers of their products or services, which with their programs of activities and communication is unlikely to have success and the results expected by the organization.

Also, managers and/or owners of SMEs have to generate the optimal working conditions for both employees and workers and managers, actively participate in the development of social support activities, philanthropic and support the development of culture of the community where the company is located, as this will not only facilitate the generation of better business results but also a better firm reputation level of SMEs. Therefore, the inclusion and participation of all staff of the organization in CSR actions will facilitate both the design and implementation of collaborative activities, which will result without any problem at a higher level firm reputation of the SMEs.

In addition, this empirical study also has several limitations that must be established. A first limitation is that only three factors or dimensions were considered to measure CSR activities (social, environmental and economic) and one factor to measure firm reputation, which in future studies it will be necessary using other scales with other factors to compare the results obtained in this research. A second limitation is to obtain from the information, as only qualitative variables to measure both CSR activities and firm reputation were considered, so in future studies it will be important to consider quantitative variables or hard data for SMEs, to corroborate the results obtained in this empirical study.

A third limitation is that the instrument for collecting information was applied only to the managers and/or owners of SMEs in Aguascalientes (Mexico), so the results may differ considerably if considered a different population. A fourth limitation is that only companies that have between 5 and 250 employees were considered, which in future studies would be useful to also consider SMEs of less than 5 workers. A fifth limitation is that it was assumed that all managers and/or owners of SMEs surveyed had a clear knowledge of CSR activities and firm reputation, which does not necessarily mean that managers of companies have knowledge of the two analysis structured.

A final limitation is that a high percentage of the companies surveyed

considered that the information requested was confidential, so the information provided by the managers and/or owners of SMEs do not necessarily reflect the reality in companies in terms of CSR activities and firm reputation, so in future studies will be necessary to consider the participation of chambers and business associations to avoid, the extent possible, the falsity of the information requested.

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