World Scientific Research Journal (WSRJ) ISSN: 2472-3703
www.wsr-j.org

Is It More Profitable for Business to Be Socially Responsible?

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Abstract: As public expectations of businesses have increased, corporations have attempted to engage in corporate social responsibility (CSR) in the hope that their efforts would achieve more positive outcomes. Accordingly, how CSR affects corporate profits has commanded increasing attention. This essay seeks to shed light on how and under what conditions CSR might be more profitable for business. More specifically, how to establish a positive connection between CSR and profit; and what characteristics of CSR programs and firms influence the connection respectively. I put forward that reputation and consumer reactions add value to CSR activities; the CSR program-specific factors (CSR-company fit, visibility and voluntary) and firm-specific factors (industry environment, firm size and stakeholder influence capability) influence the payback of CSR. This essay is organized as follows: firstly, it will illustrate the mediating role of reputation linking CSR and potential benefit; and then the consumer satisfaction and how this contributes to corporate profit acquisition; thirdly, what strategic features of CSR program could create value; and finally, which firm conditions are suited to generate CSR returns.
Keywords: Business; society; profit.

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1. INTRODUCTION

Current research suggests there is no direct or exact link between corporate social responsibility and financial performanccae; and yet some studies have shown an indirect relationship is found (Surroca, Tribo and waddock, 2010). The results show that a firm's social performance can influence consumer behavior. In this way, it then has the ability to foster a competitive advantage and bring in an improved financial performance. Practicing CSR makes it possible for firms to reap and gain an ethical reputation, through which a firm optimizes CSR strategy and gains competitive advantage. As for reputation, two questions follow: how to achieve it and how to use it.

2. HOW TO ACHIEVE REPUTATION AND HOW TO USE IT

Firstly, in terms of reputation establishment, according to Weigelt and Camerer, (as cited in Galbreath, 2009) this can be seen as 'a signaling process': stakeholders' impressions of firms

hinge on what signals firms have sent to them. CSR activities involve in the process used by firms to send visible signals that they are socially responsible and sensitive to stakeholders' social concerns. In other words, it is the link between firms' performance and stakeholders' impressions which forms the reputation. According to Bramer and Pavelin, 'reputation', an abstraction of public opinions, relies on a firm's capability to match stakeholders' expectations (Surrora et al., 2010). In addition, the fit between stakeholders' expectations and a firm's performance leads to an enviable reputation, which acts as a cushion against a crisis due to well-earned trust from stakeholders (Galbreath, 2009). Furthermore, the trust that a firm will shoulder its social responsibility in the long run will strengthen firm-stakeholders relationship and foster stakeholder satisfaction (Surroca et al., 2010). However when relying upon reputation alone, the according benefit is still beyond attainment. The crux of the matter is how to make optimum use of it.

Secondly, reputation management should be adopted to maximize a competitive advantage. Falkenberg and Brunsol(2011) note that a good reputation could be an inimitable asset to a firm when it springs from the firm's value as well as a series of organized CSR activities rather than a single activity. They further suggest a firm should firstly identify it is the unique reputation that puts resources and activities to good account and generates a competitive advantage (Falkenberg et al., 2011). Likewise, in Vilanova, Lozano and Arenas' (2009) study, researchers found an ethical reputation helps to integrate a CSR strategy into an organization. In this regard, the reputation connects CSR and the competitive advantage through three ways. Firstly, reputation management is exercised through a CSR strategy, making it possible to achieve competitiveness. Additionally, it relies on fostering closer relationships with stakeholders. Finally, it requires firms to increase the transparency of organization to public (Vilanova et al., 2009). The study further mentions reputation management will not only facilitate innovation but also minimize risks. It seems that one approach of attaining a competitive advantage is through the reputation. However, Galbreath collects data only from the CEOs in Australia, which fails to extend to others without examination.

Based on consumers' awareness and perceptions of motives and rooted in the reputation, consumers' positive or negative attitudes are built, influencing their supporting, or avoidant behaviors. While, a number of research has found that there is an attitude-behavior gap, which means a positive attitude fails to manage a purchasing decision, in the CSR realm (Castaldo et al., 2009; Oberseder et al., 2011).

Firstly, it seems the discrepancy derives from consumers' skeptical attitudes. As Du et al. (2009) suggest, to eliminate consumers' suspicions is of essence. Likewise, Castaldo et al. (2009) conclude trust facilitates consumers' purchase choices. With it, the gap between CSR performance and financial performance can be bridged. As a result, it becomes critical for a company to build trust. Consistent with Castaldo et al.' research, Oberseder et al (2011) give further suggestions about trust-building. One factor is image. A company's image, an integral part of reputation, may possibly convince consumers the company shoulders its responsibility (Oberseder et al., 2011). Similarly, Castaldo et al. (2009) highlight the role of reputation to

narrow the gap, particularly, the reputation for contributing to consumer benefits. The other factor exists in CSR initiatives. For instance, a company's products take in ethics are likely to dispel consumers' doubts (Castaldo et al., 2009). To gain trust from consumers, a company may have to make efforts not only to command good reputation, but to increase trustworthiness of CSR initiatives.

Secondly, it appears that the chasm results from how consumers regard their purchase decisions. According to Murray and Vogel's view (as cited in Green and Peloza, 2011, p49; as cited in Peloza and Shang, 2011, p119), they summarize it as an exchange process: 'the exchange is one in which the firm offers something of value – typically a social benefit or public service – to an important constituency and, in turn, anticipates receiving the approval and support.'. Consequently, while a firm tries various devices to profit from consumers, they are suggested to explore every avenue towards consumers' value. Corresponding to their study, the results show that there are three kinds of value consumers pay attention to.

3. THE VALUE THAT CONSUMERS CARE ABOUT

First, purchase decisions are made since the company is beneficial to society. In this way, consumers gain emotional value. In addition, in social realm, purchase choices are as viewed by others as symbols of individuals' social consciousness. Lastly, 'functional value' is what specific benefits a product or service contains. (Green and Peloza, 2011). In parallel, Bhattacharya, Kenschun and Sen (2009) draw on the theory of 'means-ends chains', in which consumers purchase is described as an effort to generate utmost benefit, to support the key role of value providing on consumer behaviors. In Green and Peloza's (2011) study, functional value is suggested as dominance of whether consumers regard CSR as a purchase criterion. However, their study is against the background of recession, which seems to have an apparent effect on consumers.

The first profitable feature of CSR programs is CSR-company fit, which is described as the fit between CSR programs and a firm's core business and objectives, including their 'product line, brand image, position and target market' (Bhattacharya et al., 2009, p266). According to Kanter, when a firm's CSR activities fits into their core business targets, the firm avails itself of the opportunities to bring in business profits since addressing social issues helps to collect resources and cultivate capabilities, which could be integrated into business operation (as cited in Husted and Allen, 2009). Added to this, Bhattacharya et al. (2009) note that new markets are to be found given the initiatives centering on core business add social values to the firm' products and services. Compared with other programs, the high fit programs manifest more strategies to leverage CSR value (Bhattacharya et al., 2009). In addition to increasing profit, CSR-company fit could also provides value from the opposite. That is decreasing cost. Confining CSR activities in the business a firm proficient in is much easier to supervise the process and control cost (Husted and Allen, 2009).

Lastly, high CSR-company fit seems to be more trustworthy for consumers. They even take the level of fit as a criterion of credibility (Oberseder et al., 2011).Firms are usually expected to

contribute to social issues that have logical connections with their core business, such as their products, their corporate value or objectives , or their brand image. Stakeholders' CSR attributions are relied on the level of fit (Bhattacharya and Sen, 2009). They further mention that low CSR-company fit may cause consumers' skeptics about motives of firms' CSR activities, in this way, it discourages supporting behaviors. Akin to this, Bhattaherya et al (2009) find CSR-company fit strengthens stakeholders' assessment of company's business value. However, according to Bloom et al.'s research, in some certain cases, low CSR-company fit may be seen as a genuine concern for society; and bring about positive responses from stakeholders (as cited in Bhattacharya and Sen, 2009).

As a result, in certain industries, some CSR behaviors are described as 'strategic necessities' due to the environment and stakeholders' expectations (Falkenberg and Brunsal, 2011). In addition, Moura-Leite et al (2012) state that the general image of a certain industry also conveys an impression, which means stakeholders, may see every firm in the same industry alike. A typical example is some particular industries such as tobacco often fuel suspicion (Bhattacharya et al, 2009). Accordingly, organizations in the same industries comply with rules spontaneously to avoid adverse effects (Moura-Leite et al, 2012).

Secondly, Surroca et al (2012) has found that the CSR profits vary on the different developing stages of industries. They continue to analyze in highly developing industries it is more likely to generate CSR outcomes than in mature industries. Thirdly, Arendt and Brettel (2010) conclude that the paybacks of CSR are also contingent on the type of industry. They further explain CSR weighs in firms' favor both in service and product industries; yet, in service industries CSR boosts 'stakeholder- company identification' while in product industries CSR polishes the brand image(Arendt and Brettel, 2010). While, in Arendt and Brettel's, the data resources are only customers and suppliers, who may contain some common bias.

Another crucial firm-specific factor relates to a corporation's shareholder influence capacity. Barrett and Salomon (2012) point out what determines good financial returns is the firm's store of shareholder influence capacity (SIC). A accumulating progress of SIC plays a key role in the enhancement of economic performance; for it functions effectively not only by strengthening a firm to reap extra rewards with new consumers coming and new market entering but also by lessening running expenses. Adequate SIC prompts firms to capitalize on their CSR initiatives. A firm is plagued by poor financial performance before a firm accumulates sufficient stakeholder influence capacity. When adequate SIC is obtained, it turns to upward with increasing profit (Barrett and Salomon, 2012).

It appears that corporations would be recommended to formulate CSR plans through detailed analysis and research not only on the CSR initiatives but on their own corporate specific conditions. In this way, it might optimize CSR strategy and increase profit from it.

4. CONCLUSION

In this essay, it has explained how and under what conditions firms might benefit from social performance. It appears that CSR creates profit indirectly through reputation and consumer

behavior, which is subject to the influence of the characteristics of CSR initiatives and companies. It has been proved by demonstrating the process in which firms gain and manage reputations and consumer satisfactions and translate them into profit. Then, it has analyzed the CSR programs which are core business related, highly visible and voluntary actions appear to be more profitable. Lastly, it shows the industry environment, the firm's size, stakeholder influence capability, will influence the extent firm could profit from CSR. Each factor involves in this whole value creating process do not act separately. The enhancement of one will influence others positively. In practice, a firm would be well advised to consider CSR as a birthplace of social capital and competitive advantage, to integrate CSR into its social and business targets and corporate strategies. Further research can continue to examine the impact of specific industries on the connection between CSR and financial performance, which might have more practical value in specific industries.

ACKNOWLEDGEMENTS

The study was supported by 'Training Program Foundation in University of Heilongjiang Bayi Agricultural University'. Project Title: 'Design and Application of Audit System of Modern Commercial Bank based on Audit model' (Grant No. XRW2017-06)".

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