

Does Reputation Mediate the Relationship between Corporate Social Responsibility and Performance of SMEs in China

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ABSTRACT

Motivated by the inclusive direct relationship relationship between corporate social responsibility (CSR) and corporate performance and the call for the consideration of mediation, this study tested the mediation role of corporate reputation on the relationship between CSR and corporate performance. CSR was classified into internal CSR and external CSR, while corporate performance consists of corporate financial performance and corporate operational performance in order to investigate the relationship in specifics. The results of PLS-SEM analysis on 309 responses from a questionnaire survey on small and medium enterprises (SMEs) in China indicated that both internal and external CSR affect corporate reputation significantly. The corporate reputation mediated the relationship between external CSR and corporate operational performance, and internal CSR affects corporate financial performance directly. These findings provide a verified theoretical framework for managers to plan and execute CSR to enhance corporate reputation and financial performance of SMEs. Limitation of the study is reported.

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INTRODUCTION

Corporate social responsibility (CSR) is a concept that has progressively attracted much attention by researchers since early 1930s. To date, the topic of CSR continues to hold high regard by scholars (Hack, Kenyon, & Wood, 2014) and it is well acknowledged as a strategic imperative for business to remain competitive (Bai & Chang, 2015).

Due to the economic nature of corporates, the relationship between CSR and corporate performance has been a focal point among researchers. It is also the most debated issue in CSR literature (Fassin, Werner, van Rossem *et al.*, 2015) because of the inconclusive results of previous findings. A universal relationship between CSR and corporate performance was considered spurious (Galbreath & Shum, 2012; Saeidi, Sofian, Saeidi, Saeidi, & Saeidi, 2015) because it is potentially affected by many internal and external factors. Mediation is a possible research effort to strengthen the research on this relationship (Galbreath & Shum, 2012; Servaes & Tamayo, 2013; Wood, 2010). Among the suggested mediators, corporate reputation attracted a considerable attention and it is supported by the stakeholder theory, and it has been empirically tested by a few studies (Galbreath & Shum, 2012; Huo & Zhou, 2014; Lai, Chiu, Yang, & Pai, 2010; Saeidi *et al.*, 2015). To the best of the authors' knowledge, study on the mediating role of corporate reputation on the relationship between CSR and corporate performance of SMEs manufacturing industry has not seen reported in China.

CSR should be understood as a generic concept that is applicable to SMEs as well as large companies with the vigorous growth of studies on social responsibility of SMEs (Spence, 2007) though the term "corporate" is commonly used. To be in line with literature and maintain the consistency of phraseology, this study use "corporate" rather than SME in terminology such as corporate performance and corporate reputation.

Research on CSR of Chinese SMEs indicates the awareness level of CSR in SMEs and the level of SMEs practicing CSR are low (Yang, 2012). The situation of Chinese SMEs fulfilling CSR was concluded as "unable", "unaware", and "unwilling" (Jin & Hu, 2011). The reason contributed to low CSR practice among SMEs was identified as "involving in CSR is a waste of resources and not positively effective on the success of a business" (Castka, Balzarova, Bamber & Sharp, 2004; Shi, 2010). However, many studies found that CSR did not tend to harm economic growth (Bettis, 1981; Delery & Doty, 1996). SMEs need to improve performance to remain competitive. The objective of this study is, based on stakeholder theory, to assess the mechanism of CSR affecting corporate performance, in Chinese SMEs.

This paper is composed of six sections. Section 1 is an introduction about the background and objective of the study. Section 2 reviews literature and proposes the hypothesis of the study. Section 3 focuses on the research methodology, including questionnaire development and the process of data collection. Section 4 presents the results of data analysis via PLS-SEM approach. Section 5 discusses the findings, followed by Section 6, which deliberates the limitations of the study and suggestions for future research. Section 7 concludes the paper.

THE RELATIONSHIPS BETWEEN CSR, CORPORATE REPUTATION, AND CORPORATE PERFORMANCE

Corporate Social Responsibility (CSR)

Turker (2009a) defined CSR as corporate's behaviours that go beyond its economic interest and aim to influence stakeholders positively. Stakeholders are the parties whom are affected by CSR. Hence, stakeholder theory is the mostly applied theory in CSR research.

The father of stakeholder theory, Freeman (1984), defined stakeholder as "any group or individual who can affect or is affected by the achievement of the organisation's objectives". The key groups of stakeholders include shareholders, creditors, customers, employees, suppliers, and local communities were classified into primary and secondary, internal and external, or actual and potential groups (Crane & Ruebottom, 2011). Stakeholders are divided into internal stakeholder and external stakeholder based on their level of involvement in the legal and administrative aspects of a corporate (Cavanagh & McGovern, 1988; Mitroff, 1983). Similarly, CSR can be divided into internal CSR and external CSR (Brammer, Millington, & Rayton, 2007; Crane & Ruebottom, 2011). CSR that benefit internal stakeholders beyond the obligated requirement is named as internal CSR, such as, employee training, providing good working conditions, and procedural justice within an organisation (Brammer *et al.*, 2007). CSR applied to external stakeholders is coined as external CSR. External CSR shows the corporate's concern of external stakeholders' interests, including contributions to the community or the ethical way of a corporate interacts with the environment, consumers, suppliers, and other external stakeholders (Carroll, 1979).

CSR concepts are different among countries due to the differences in levels of economic development, the cultural traditions as well as the reform of political system (Visser, 2011). Carroll (2016) described the four dimensions, i.e. economic, legal, ethical, and discretionary, of his well-known CSR Pyramid focused on the aspect of stakeholders that might be affected differently. Spence (2016) proposed a four small business social responsibility pyramids, i.e., CSR to self and family, CSR to employees, CSR to local community, and CSR to partners. Generally, CSR definition has gone through evaluations over the decades. It is not recommended that all corporates define their CSR the same way, however, agreement on the principle concepts is important for CSR to be applied commonly amongst SMEs.

Corporate Performance

Corporate performance is one of the most concerned issues of business. Initiative to improve corporate performance is the main objective of every function of a business entity management. According to Venkatraman and Ramanujam (1986), the performance domain has three levels, namely financial performance, financial plus operational performance, and organisational effectiveness. Majority of studies on strategy had restricted their focus to the first two levels, i.e., financial performance and operational performance or non-financial performance. This is similar to Jones, Jones, Latreille, and Sloane (2009) consideration of performance measurements, which includes financial performance, labour productivity, and quality of products or services, relative to the competitors. Financial performance reflects the fulfilment of economic goals

of the corporate. There are two indicators of financial measurement commonly used in the literature, i.e., profitability and sales growth. Operational performance evaluates technological efficiency within the domain of business performance. Venkatraman and Ramanujam (1986) suggested three indicators of operational performance, i.e. market-share position, quality of product or service, and new product introduction.

The Relationship between CSR and Corporate Performance

Numerous studies on the relationship between CSR and corporate performance have been conducted (Barnett & Salomon, 2012; Lee & Roh, 2012; Rowley & Berman, 2000). However, the inconsistent results induced scholars' queries and interests to explore this relationship in greater depth. Many scholars associated this issue with methodology and theoretical issues (Ruf, Muralidhar, Brown, Janney, & Paul, 2001). In other words, empirical and theoretical limitations were mentioned in the previous studies (Beurden & Gössling, 2008; McWilliams & Siegel, 2000; Rowley & Berman, 2000).

Questionable measurements of variables, among others, have been argued as the possible causal factor leading to inconsistent results. Firstly, there has been lots of research done on the relationship between CSR and corporate performance focused on the financial performance only (Shen & Chang, 2009). However, financial measurements use historical data inadequate to predict future business performance (Ittner & Larcher, 1998), and failed to measure and integrate all the critical success factors of a business. Secondly, some research included financial performance as a dimension of CSR (see Rowley and Berman (2000)), obviously unsuitable for the relationship study. Thirdly, some researchers used a single dimension CSR measurement, such as air pollution, illegal activity, and product recall. Both validity and reliability of single dimension measurement could be bias because CSR should measure corporate's behaviours toward various stakeholders rather than focusing on a single group of stakeholders.

A few scholars contended that previous research lack of a strong theoretical rationale to explain such a relationship (Griffin & Mahon, 1997; Preston & O'Bannon, 1997; Rowley & Berman, 2000). However, Marom (2006) proposed a unified theory to explain the relationship via costs and benefits of CSR. The incurring costs for CSR activities might be higher or lower than the benefits reaped by the corporation. Hence, the impact of CSR on financial performance can be both positive and negative. Moreover, Barnett and Salomon (2012) found a symmetrical U-shaped relationship between CSR and financial performance by observing 4730 data over a period of eight years from 1998 to 2006. Many studies suggested that CSR enhances corporate performance by effective usage of energy and waste reduction of raw materials (Guo, Zhou, Yu *et al.*, 2015). Lee and Roh (2012) suggested that CSR showed more effect on market-based performance than accounting-based short-term profit, based on the cost effects.

Research on the relationship between CSR and corporate performance could be considered left behind in China than in the Western countries. In addition, most of the research focused on public listed companies that disclose annual reports to the public (Jin, 2008; Li & Mu, 2010; Wang, 2010; Wen & Fang, 2008). A few research found negative or insignificant relationship between CSR indicators and corporate performance (Chen, Shi, & Pu, 2008; Li, 2012). Moreover, other researchers reported that both positive and negative relationships exist

among dimensions of CSR and corporate performance (Ji & Tao, 2009; Yin & Yang, 2012). The relationship between one dimension of CSR and corporate performance might be positive, while the relationship between another dimension of CSR and corporate performance could be negative. A review by Fu and Jia (2012) summarised that the relationship between CSR and corporate performance is still inconclusive. Studies about the relationship between CSR and corporate performance in SMEs of China also showed inconsistent results. For example, Jin and Lin (2008) found negative and positive relationships between corporate performance and different dimensions of CSR. Liu and Fong (2010) also reported similar ambiguity results.

Many scholars argued that a universal result is unreasonable because many contingent factors affect the relationship. Besides, there is critique for lack of causal chain associating CSR with corporate performance (Delmas & Toffel, 2008), i.e., the mediator. Before introducing mediator, the direct relationship between CSR and corporate performance should be confirmed first. A positive relationship between CSR and corporate performance is expected. The following four hypotheses are proposed to test the relationships in detail.

H1: Internal CSR is positively related to corporate financial performance

H2: Internal CSR is positively related to corporate operational performance

H3: External CSR is positively related to corporate financial performance

H4: External CSR is positively related to corporate operational performance

The Relationship between CSR and Corporate Reputation

Fombrun and Shanley (1990) defined corporate reputation as the accumulated impression of stakeholders on the corporate according to their experience and perception related to the corporate. A more concise definition of corporate reputation by Helm, Eggert, and Garnefeld (2010) was an overall evaluation of a firm by its stakeholders. A corporate's reputation will be augmented when stakeholder expectations are met through CSR (Brammer & Pavelin, 2006). In other words, the consequence of CSR should be high corporate reputation. The study of Filho, Wanderley, Gómez, and Farache (2010) found that CSR enhanced corporate competitiveness via corporate reputation, and it shows a positive relationship exists between CSR and corporate reputation. Furthermore, the results of Li, Wang, and Li (2012) also supported a positive relationship between CSR and corporate reputation in the context of China. The positive relationship between external CSR and corporate reputation is widely accepted and easily understood. The positive relationship between internal CSR and corporate reputation is also expected on the consideration that the corporate reputation of a corporate cannot be high if employees are treated irresponsibly. Therefore, this study proposed that:

H5: Internal CSR is positively related to corporate reputation.

H6: External CSR is positively related to corporate reputation.

The Relationship between Corporate Reputation and Corporate Performance

The view of corporate reputation positively impacting on corporate financial performance has been documented for many years (Iwu-Egwuonwu, 2011). Lee and Roh (2012), based on a research of 230 firms, proved that corporate reputation is positively related with both market-based performance and accounting-based performance. Recently, Blajer-Golebiewska (2014) stated that the relationships between indicators of corporate reputation and corporate financial performance were statistically significant. Moreover, good corporate operational performance could be expected because of stakeholders' resource provision such as better cash flow, good employees, and guaranteed supply of trust partners that can be obtained with positive reputation. The marketing literature suggested a positive effect of corporate reputation on the sales force effectiveness and product innovation (Dowling, 2001). A better corporate reputation builds a higher level of stakeholders' trust, which directly lowers transaction costs and offers higher performance (Jones, 1995; Prahalad, 1994).

Broker Network polled over 500 SME owners across United Kingdom (UK) and found that about 30% of SMEs treat reputation as the biggest issue in a business (SME Insider, 19 August 2016) and approximately 81% of consumers conducted online research before purchase and roughly 80% of consumer would change their mind due to a negative online review (Zurich Insider, 04 June 2015). The Quoted Companies Alliance and BDO reported that 28% of SMEs' value can be attributed to its reputation (Igniye, 2016) in UK while the percentage is as much as 75% estimated from Economist Intelligence Unit (Zurich Insider, 04 June, 2015), illustrating the important effect of reputation on the corporate performance.

However, the claim that corporate reputation contributes to corporate performance has been challenged as being anecdotal or based on flawed measures of reputation (Chun, 2005). Another issue needs to be noted is that the generalising value of the results is doubtful because most previous studies focused on large companies, such as America's Most Admired Companies (Lee & Roh, 2012). Therefore, the positive relationship between corporate reputation and corporate performance still needs to be examined in Chinese SMEs. Accordingly, this study proposed the following hypotheses:

H7: Corporate reputation is positively related to corporate financial performance.

H8: Corporate reputation is positively related to corporate operational performance.

The Mediating Role of Corporate Reputation on the Relationship between CSR and Corporate Performance

According to stakeholder theory, stakeholders determine their resource allocation toward the corporate based on the corporate's reputation related to their evaluation of the corporate's CSR practices, and then influencing on corporate performance (Donaldson & Preston, 1995). Donaldson and Preston's (1995) described stakeholder theory in three aspects, i.e., descriptive, instrumental and normative aspects. According to the instrumental stakeholder theory, a corporate makes profit by trading with its stakeholders. If a corporate wants to achieve objective Y, it should do action X to its stakeholders. The way a corporate treating its stakeholder plays a critical role on its performance. CSR is a strategy to enhance organisational performance by

treating stakeholders in a proper way (Garriga & Melé, 2004; Laplume, Sonpar, & Litz, 2008). Therefore, stakeholder theory supports the mechanism of CSR affecting corporate performance via influencing stakeholders and enhancing corporate reputation (Clarkson, 1995; Mitchell, Agle, & Wood, 1997; Neville, Bell, & Mengüç 2005).

Vitezić (2011) statistically confirmed the positive relationship between CSR and corporate reputation, as well as the positive relationship between corporate reputation and corporate financial performance in 20 large companies in Croatia. However, the measurements, such as economic aspect of CSR, financial performance dimension of corporate reputation, and financial results of corporate, were intersected. Galbreath and Shum (2012) investigated the mediating role of customers' satisfaction and corporate reputation on the relationship between CSR and corporate performance in Australia, and found the mediating effect of corporate reputation. Saeidi *et al.* (2015) found a similar result in Iran. The mediating role of corporate reputation on the relationship between CSR and corporate performance is valid from the theoretical angle and has been proven by some empirical studies (Galbreath & Shum, 2012; Huo & Zhou, 2014; Saeidi *et al.*, 2015). However, there is still a need to examine the relationship in Chinese SMEs on considering the effects of different contexts by the applicability of CSR (Tilt, 2016). Hence, this study proposed that corporate reputation mediates the relationship between CSR and corporate performance.

The results of Huo and Zhou (2014) showed the mediating role of corporate reputation on the relationship between CSR toward employees and corporate performance was different with that of between CSR toward environment and corporate performance. Iwu-Egwuonmu (2011) also mentioned internal and external stakeholders when describing the development of corporate reputation. The following hypotheses will be tested:

H9: Corporate reputation mediates the relationship between internal CSR and corporate financial performance.

H10: Corporate reputation mediates the relationship between internal CSR and corporate operational performance.

H11: Corporate reputation mediates the relationship between external CSR and corporate financial performance.

H12: Corporate reputation mediates the relationship between external CSR and corporate operational performance.

The research framework is established and presented in Figure 1.

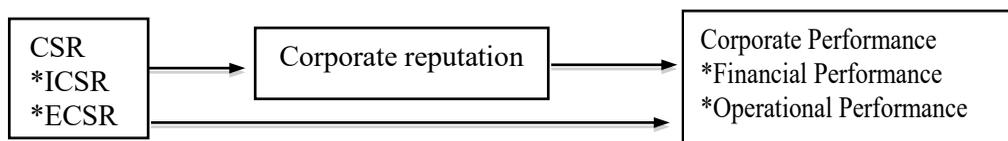


Figure 1: The Relationships between CSR, Corporate Reputation, and Corporate Performance

RESEARCH METHOD

Research Design

To achieve the research objectives, this study designs a survey questionnaire to collect data and tests the hypotheses by using Partial Least Squares Structural Equation Modelling (PLS-SEM). PLS-SEM is an approach for prediction-oriented research and with lesser restrictions on data (Hair, Hult, Ringle, & Sarstedt, 2013). In this study, the unit of analysis is SME. The population comprised all SMEs in manufacturing industry in Hebei Province of China where 167 thousands SMEs were located.

Middle-level managers of SMEs were selected as the respondents of this study. The reason to choose middle-level managers as the respondents is that they are more authoritative to response about the CSR, corporate reputation, and corporate performance of the corporate compare to other employees. Besides, they are less likely to be biased toward the corporate compare to the top managers who are normally the SME's owner or main shareholder in China. Middle-level managers are also employees who are director or chief of department, such as department of marketing, department of manufacturing, and department of financing or administration. If there is no department in a small SME, a supervisor can be the respondent. A sample size of more than 256 is deemed appropriate for a statistical power of 80% in a model where its maximum number of arrows pointing to a construct is 10 while the minimum R^2 is 0.10 when using PLS-SEM (Hair *et al.*, 2013).

Questionnaire Development

Questionnaire development was composed of three stages. At the first stage, the structure of the questionnaire was designed and items for each of the variables were adapted from literature. At the second stage, the questionnaire was pre-tested to improve the presentation and content validity. The third stage was pilot study in which the final questionnaire was established after determining the dimensions and items of all variables through factor analysis.

The questionnaire contained the measurements of variables including perceived internal CSR, external CSR, corporate reputation, financial performance, and operational performance of the corporate that the respondent is working for. Measurements of internal CSR, external CSR, and corporate reputation were all using the seven-point Likert scale. Respondents were asked to indicate the extent of agreement from “strongly disagree (score of 1)” to “strongly agree (score of 7)” for the items. To measure financial performance and operational performance, respondents were required to indicate the level of performance indicator from “much better (score of 1)” to “much poorer (score of 5)” according to perceived financial performance and operational performance of the corporate they work for relative to the competitors over the past three years.

This study used a seven-point Likert scale for CSR and corporate reputation in the consideration of the Doctrine of the Mean tradition of Chinese culture in which people tend to select a moderate choice. Seven-point scale questionnaire might still get data that are various enough for statistical analysis comparing to the five-point scale questionnaire when people avoid selecting extreme answers. Measurement of corporate performance used a five-point

scale because it is less complicated when comparing between corporates. Different scales and order direction were used for different measurements to attract the attention of respondents and to reduce the common method bias (CMB).

Items for measuring internal CSR and external CSR were adapted from various literatures such as Maignan, Ferrell, and Hult (1999), Pivato, Misani, and Tencati (2008), Turker (2009b), and Liu and Fong (2010). Measurement of corporate reputation includes items such as “recognised as trustworthy corporate” (Maignan & Ferrell, 2000), “people in community think highly of the corporate” (Kim *et al.*, 2010). Items for measuring financial performance include profitability, sales growth, and the financial situation of the SME. The third indicator, “financial situation in our corporate”, is developed because of the serious financing difficulty and its importance to the success of SMEs in China (Huang, 2014). Items of operational performance measurement include market-share position, quality of product or service, and new product introduction adapted from Venkatraman and Ramanujam (1986).

Item analysis is conducted to identify the discriminating power of every item, the correlation between item score and the total score, and the homogeneity among items of a measurement. A critical ratio value of an item should be larger than 3.000, the coefficient of correlation between score of an item and the total score of all items should be larger than 0.400 to be considered as significant (Wu, 2010). The homogeneity among items is justified by Cronbach’s alpha if item deleted, intercommunity, and the loading of item. An item should be deleted when Cronbach’s Alpha increases, if it is deleted. The acceptable values of intercommunity and the loading of item are not less than 2.000 and 0.450 respectively.

Exploratory factor analysis (EFA) is used to determine dimensions and related items. Factor analysis of all measurements was conducted by extracting factors with eigenvalues greater than one using the extraction method of Principal Component Analysis, and the rotation method of Varimax with Kaiser. The final measurement of CSR contains 7 items for internal CSR and 13 items for external CSR. Corporate reputation is measured with 4 items. There are 6 items for measuring corporate performance, where 3 items are measuring operational performance and the 3 items are measuring financial performance.

Data Collection

A total of 700 copies were emailed and 300 hard copies were mailed at the same time, to SMEs randomly selected from a sampling frame developed on the base of the database of SMEs in Hebei province in June 2013. A total of 351 questionnaires were returned by August 2013 and among them 42 responses were unusable due to incomplete or wrong target respondents. A total of 309 effective responses were achieved, which is equivalent to an effective response rate of 30.9%. Among the 309 usable responses, there were 185 from email respondents and 124 from hard copy questionnaire respondents. The results of *t*-test indicated that there was no significant difference between data collected from the two methods. The data of corporate performance was reversed to make scores of all scales to be ranked in the same direction from negative to positive when the data were entered into IBM SPSS 20 dataset file.

DATA ANALYSIS AND RESULTS

Data Description

A total of 309 valid responses were used for data analysis. The respondents' profile describes frequency and valid percentage of respondents in terms of gender, age, education, and department they worked is shown in Table 1.

Table 1: The Respondents' Profile

Demographic Variables	Categories	Frequencies (n=309)	Percentage (%)
Gender	Male	196	68.1
	Female	92	31.9
	Missing	21	
Age	24 years and below	10	3.4
	25 - 34 years old	76	25.7
	35 - 44 years old	125	42.2
	45 - 54 years old	70	23.6
	55 years and above	15	5.1
	Missing	13	
Education	High school and below	48	16.9
	Diploma	128	45.1
	Bachelor degree	97	34.2
	Postgraduate	11	3.9
	Missing	25	
Department	Administration	88	28.8
	Human resource	40	13.1
	Operations / Technical	53	17.3
	Marketing	33	10.8
	Finance	54	17.6
	Others	38	12.4
	Missing	3	

The descriptive statistics of items of measurements and variables were displayed in Table 2, Table 3, Table 4, and Table 5, respectively.

Table 2: Descriptive Statistics of Items of CSR

Item	<i>N</i>	Minimum	Maximum	Mean	Std. Deviation
LAW1	309	1	7	5.796	1.042
LAW2	309	1	7	5.799	0.996
LAW3	309	1	7	5.864	1.045
ENV1	309	1	7	5.796	0.974
ENV2	309	2	7	5.845	0.937

Table 2 (Cont.)

ENV3	309	1	7	5.796	1.066
CUS1	309	2	7	5.926	0.907
CUS2	308	2	7	5.909	0.883
CUS3	309	1	7	5.715	1.067
CUS4	309	2	7	5.994	0.890
SOC1	309	1	7	5.647	1.070
SOC2	309	1	7	5.521	1.191
SOC3	309	1	7	5.298	1.419
LQ1	309	1	7	5.204	1.391
LQ2	309	1	7	5.136	1.473
LQ3	309	1	7	5.388	1.350
LQ4	309	1	7	5.372	1.327
SH1	309	1	7	5.702	1.109
SH2	309	1	7	5.673	1.078
SH3	309	1	7	5.816	0.991

Note: LAW: Legal Responsibility; ENV: Environmental Responsibility; CUS: Customer; SOC: Social Stability and Progress; LQ: Life Quality of Employee; SH: Safety and Health

Table 3: Descriptive Statistics of Items of CP

Item	N	Minimum	Maximum	Mean	Std. Deviation
CFP1	309	1	5	2.858	0.848
CFP2	309	1	5	2.968	0.817
CFP3	309	1	5	2.748	0.868
COP1	309	1	5	2.748	0.883
COP2	309	1	5	2.424	0.900
COP3	309	1	5	3.230	1.112

Note: CFP: Corporate Financial Performance; COP: Corporate Operational Performance

Table4: Descriptive Statistics of Items of CR

Item	N	Minimum	Maximum	Mean	Std. Deviation
CR1	309	1	7	5.634	1.170
CR2	309	1	7	5.324	1.304
CR3	309	1	7	5.233	1.392
CR4	309	1	7	5.618	1.202

Note: Corporate Reputation

Table 5: Descriptive Statistics of Variables

Variable	<i>N</i>	Minimum	Maximum	Mean	Std. Deviation
CFP	309	1.00	5.00	3.142	.749
COP	309	1.00	5.00	3.200	.816
ECSR	309	1.58	7.00	5.750	.837
ICSR	309	1.00	7.00	5.503	1.013
CR	309	1.00	7.00	5.452	1.143

Note: Descriptive statistics of variables is averages of relative items

Data Analysis by Using PLS-SEM

A model including all items and constructs of independent, dependent and mediating variable was established according to the theoretical framework. All items of measurements were treated as reflective indicators in the model. The procedure of data analysis is a process of model testing. Measurement model and structural model test were performed with PLS-SEM approach by using SmartPLS 2.0 software.

Measurement Model Assessment

The reflective measurement model test, according to the rule of thumb suggested by Hair, Ringle, and Sastedt (2011), includes assessment of indicator reliability (item reliability), internal consistency reliability (construct reliability), convergent validity, and discriminant validity of the measurement model.

Indicator reliability can be evaluated by the value of items' main loadings. The main loading of an item should be greater than 0.7 (Hair *et al.*, 2011). The PLS algorithm was run for the model and the main loadings were computed, together with the cross loadings of every item on all constructs. An item measuring CSR on customer was deleted and omitted from further analysis because its main loading smaller than 0.7 (Hair *et al.*, 2011). After removal, the main loadings of all items are ranging from 0.815 to 0.943.

An indicator for assessing discriminant validity is the Fornell-Larker criterion. The variance a latent construct shares with its assigned indicators is required more than the variance that the latent construct shares with other latent constructs in the structural model (Fornell & Larker, 1981). The results of measurement assessment in this study demonstrate adequate discriminant validity.

All values are greater than the thresholds of 0.500 for AVE and 0.700 for composite reliability, showing evidences of adequate construct reliability of the measurement model (Chin, 1998; Hair *et al.*, 2011). The results of PLS algorithm demonstrated the AVE values of all constructs are ranging from 0.639 to 0.853. The composite reliability values of all constructs in the model are ranging from 0.883 to 0.955.

Structural Model Assessment

The two primary criteria for assessing structural models are the coefficient of determination (R^2 value) and path coefficients' (β) significance. The R^2 value can be obtained via PLS algorithm procedure. Path coefficient significance is assessed by the bootstrapping procedure. A mediating

role is evaluated according to the significance of indirect effect of independent variable on the dependent variable via a proposed mediator. Accordingly, the associated hypotheses were tested.

The R^2 value represents the extent to which the endogenous latent variable’s variance is being explained by the exogenous variables in the model. A high R^2 values of endogenous variables is expected due to the prediction-oriented characteristics of the PLS approach. The R^2 value of endogenous financial performance is 0.124 and endogenous operational performance is 0.196 meaning that 12.4% of the variation of corporate financial performance and 19.6% of the variation of operational performance were explained in the model respectively. The explained variation of operational performance construct is larger than that of the financial performance construct. This means the predictors’ predictive capability for operational performance is higher than that of the financial performance. In addition, the R^2 value of endogenous corporate reputation is 0.476. In other words, 47.6% of corporate reputation’s variation is explained by internal CSR and external CSR in this model. The results of hypothesis testing are shown in Table 6 and illustrated in Figure 2.

Table 6: The Results of Hypothesis Test

Hypothesis	β	t -value	Result
H1	0.249**	2.606	Supported
H2	0.136	1.309	Rejected
H3	0.060	0.571	Rejected
H4	0.026	0.213	Rejected
H5	0.263**	3.105	Supported
H6	0.470**	5.082	Supported
H7	0.076	0.746	Rejected
H8	0.325**	2.808	Supported
H9	0.020	0.625	Rejected
H10	0.085	1.644	Rejected
H11	0.036	0.729	Rejected
H12	0.153*	2.546	Supported

Note: * Significant at p -value < 0.05, ** Significant at p -value < 0.01

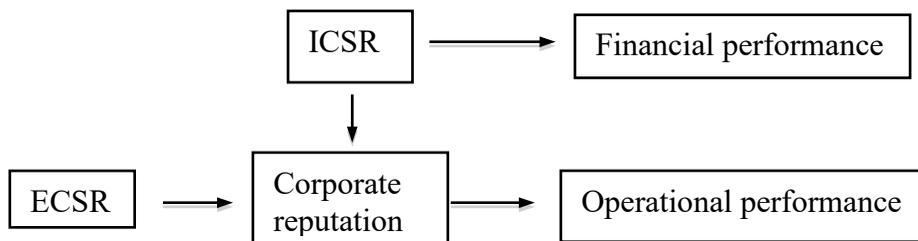


Figure 2: The Relationships Existed

DISCUSSION

The results showed that internal CSR positively related to financial performance and corporate reputation respectively, while external CSR affected operational performance through the mediating role of corporate reputation. It is essential to interpret the integrated result in detail.

Firstly, the positive relationship between internal CSR and financial performance implies that internal CSR, affecting on employees, can improve corporate financial performance without assistance of any mediator. The improvement of corporate financial performance comes directly from cost savings and efficiency improvement through well-trained employees and a safe working place. Secondly, both internal CSR and external CSR are strongly related to corporate reputation. These indicate that CSR, regardless of types, is in line with stakeholders' expectations and lead to higher corporate reputation. Thirdly, the mediating role of corporate reputation on the relationship between external CSR and operational performance is explained well by the stakeholder theory. Stakeholders distribute their resources toward the corporate, such as investing fund, material and technique supplying, based on their evaluation of the corporate's reputation related to CSR, and then influencing on corporate performance (Donaldson & Preston, 1995). However, external CSR enhance only operational performance rather than financial performance via corporate reputation due to the incurring costs cannot be covered by the reaped benefits. The costs of reputation are high because of the interference of uncontrollable information dissemination via social media in the circumstance of Internet.

The findings can serve as guidelines for managers to plan and execute CSR strategy effectively, which is crucial for achieving the objectives such as enhancing reputation and financial performance of SMEs in China. Decision makers must consider the type of CSR, i.e. internal CSR or external CSR, in order to optimally achieve the intended objectives. Firstly, internal CSR is a good choice to enhance financial performance. Internal CSR activities, such as to pay more attention on the work and life balance, to provide a safety and healthy work environment, as well as to develop skill and career of employees are strongly recommended for enhancing corporate financial performance. Secondly, SMEs should institutionalise both internal and external CSR whenever it is possible within their capability because CSR could significantly enhance their reputation. Thirdly, corporate reputation enhances operational performance rather than financial performance due to high costs. Even so, to uphold a good corporate reputation is indispensable because it has become the main reference when customers are making purchase decision along with the popularization of e-commerce in China, while CSR is a way.

LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

Firstly, the samples of this study are drawn from manufacturing SMEs in Hebei province, China. The measurements were developed based on the context of Chinese SMEs. Hence, it is necessary to retest the credibility of the measurements and model if future studies want to be conducted in other regions or industries. Meanwhile, model assessment in other industries and regions is also strongly recommended.

Secondly, common method bias (CMB) caused by collecting data from only one source is a possibility in this study. In addition to collecting data from two or more sources, future studies can use separate questionnaires. For example, researchers can collect CSR and corporate performance data from senior managers, and collect corporate reputation data from customers. Alternatively, the respondents can be the same group of people, but questionnaire containing CSR and corporate performance variables can be distributed after the questionnaire containing corporate reputation variable have been collected for a few weeks. Instead of collecting perceived data, collecting objective data is suggested for future research.

Thirdly, this study used perceived data from middle-level managers of SMEs. Perceived data are not precise and could be bias even though the respondents are selected scrupulously as described in Section 3.1. Moreover, corporate reputation is more acceptable as perception of external stakeholders rather than internal stakeholder although the interpretation of reputation is no difference between stakeholder groups (Helm, 2007). Perceived data is meaningful in management research as decisions are made on the basis of manager's perceptions. However, objective data are suggested for future research.

Fourthly, this study uses cross-sectional data. The effects of independent variables on dependent variables may not be fully justified. Using longitudinal data enables future research to investigate the relationship over time, and to confirm the causality.

Fifthly, the number of factors that influence the relationship between CSR and corporate performance might be huge. Other mediating variables should be investigated since the R^2 values of endogenous financial performance (0.124) and operational performance (0.196) were both not high.

Last but not least, another potential area for further research is to test the model by using data of large companies. Study involving small, medium, and large corporates is strongly suggested to shed light on the real influence of firm size.

CONCLUSIONS

The objective of this study is to assess the mechanism of CSR affecting corporate performance in China SMEs. It is achieved by finding the direct effects of internal CSR to financial performance and corporate reputation, in addition to the mediating role of corporate reputation on the relationship between external CSR and operational performance. The findings imply that internal CSR can improve corporate financial performance by cost savings and efficiency improvement through well-trained employees and a safe working place. Both internal CSR and external CSR lead to high corporate reputation because they are in line with stakeholders' expectations. The mediating role of corporate reputation on the relationship between external CSR and operational performance because stakeholders distribute their resources toward the corporate based on their evaluation of the corporate's reputation. This study contributes new knowledge to literature about the relationship between CSR and corporate performance and guidance for SMEs' decision on CSR even though limitations exist inevitably.

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