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**Patrizia GAZZOLA**
Department of Economics, Insubria University, Varese, Italy

# CORPORATE SOCIAL RESPONSIBILITY AND COMPANIES' REPUTATION

Theoretical article

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CSR
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**JEL Classification**
M14, P17

## Abstract

*The aim of this research paper is to analyze in what way Corporate Social Responsibility (CSR) is capable of enhancing corporate reputation. In the past companies often thought to business and society as being in opposition, but in these days external pressure for CSR continues to grow and numerous organizations monitor, rank, and report social performance. Sometimes the legal, business and reputation risks are great for companies engaging in practices deemed unacceptable. Socially responsible behaviors can increase a company's value in that they can increase the degree of confidence of the various stakeholders and the level of reputation. The research is based on the theoretical framework that supports a thesis of their positive relationship. In the paper the Italian companies with the best CSR reputations are analyzed.*

## 1. Introduction and literature review

The concept of corporate social responsibility (CSR) has grown exponentially in importance and significance. More companies than ever before are engaged in serious efforts to define and integrate CSR into all aspects of their business. There is not just one definition of CSR. According to the European Commission (EU) definition, CSR is “the responsibility of enterprises for their impact on society” (European Commission, 2011). “An enterprise should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders”. It’s possible to identify various dimensions that characterized CSR. Five are the most important dimensions: stakeholder dimension, social dimension, economic dimension, voluntariness dimension and environmental dimension (Dahlsrud 2006).

The paper focuses on social and voluntariness dimensions and in particular analyzes: workplace quality, governance and transparency, citizenship.

The concept of corporation reputation as described by Fombrun (1996, p. 36) is based on “the set of values and principles employees and managers associate with the company”. He observed that organizations doing a good job managing their corporate reputations stressed the following factors:

a) Distinctiveness: firms occupied a distinct place in the views of stakeholders;

b) focus: firms emphasized a core strategy;

c) consistency: firms were consistent in their communications with all stakeholders;

d) identity: firms were seen as genuine by stakeholders;

e) transparency: firms were seen as open and forthright in going about their business.

Another study shows that corporate reputation has two components: sympathy, emotional identification, and linking with competence, the quality of services and products delivered (MacMillan et al., 2005).

Zyglidoupoulos (2001, p.418) defines it “as the set of knowledge and emotions held by various stakeholder groups concerning aspect of a firm and its activities.” Bromley (2002) and Sandberg (2002) viewed reputation as a socially shared impression and a consensus about how a firm will behave in any given situation. Corporate reputation also is: observers’ collective judgments of a corporation based on assessments of the financial, social, and environmental impacts attributed to the corporation over time (Barnett et al., 2006: 34). Corporate identity results from assessments to an organization, though insiders can be aware of how outsiders perceive their organization (Bartel et al., 2007; Bouchikhi and Kimberly,.2008; Deephouse and Carter, 2005).

Earle (2009) distinguishes between trust and confidence in an organization. *Trust* is social and relational; *confidence* is instrumental and calculative. He defines trust as the willingness, based on shared values such as morality, benevolence, integrity, inferred traits and intentions, fairness and caring. Trust is relational. Confidence is the belief, based on past performance and experience or evidence of an organization. Corporate reputations have many aspects and vary with different stakeholder groups.

There are strong reasons to believe that corporate reputation drives business success.

Companies have to adopt social responsibility (Brammer and Pavelin, 2006; Fombrun, 2005; Andriof and Waddock, 2002) which act as a key attribute to evaluate the company reputation. Schnietz and Epstein (2005) have identified reputation as antecedent of social responsibility. Lindgreen and Swaen (2005) argue that issues relating to responsibility are embedded within the functional relationships that underpin business activities.

This research generally finds clear empirical evidence for a positive relationship between CSR and reputation. There are many works that evidence a positive relationship between CSR and financial performance and, in some cases, a positive relationship between reputation measures and financial performance (Stuebs, Sun 2011). Beurden and Gossling (2008), support a positive correlation between CSR and financial performance, in sixty eight percent of the studies reviewed, for example, they find this correlation. Thus, empirical evidence reveals that being socially responsible can bring benefits to companies' reputation although the nature of the relationship between CSR and performance is still somewhat unclear (McWilliams and Siegel, 2001, Porter and Kramer, 2006, Harrison and Freeman, 1999, Smith, 2003). Servaes and Tamayo (2013) argue that CSR activities have a negligible or negative impact on firm value for firms with low advertising intensity, which suggests that for these firms the costs sometimes outweigh the benefits. Conversely, they find a positive impact for firms with high advertising intensity. However, they show that the positive impact of advertising intensity reverses for firms with a poor prior reputation for being responsible citizens.

Corporate social responsibility (CSR) has been outlined as the voluntary, additional legal duties of an organization to serve environment and community. This voluntarily actions of a company help them to develop reputation. The study recommends that companies should incorporate CSR into their strategic decision making process in order to build good reputation (Ali and Ali 2011) and increase their financial performances.

## 2. Methodology

This study is focused on the CSR to gain reputation (Weiser& Zadek 2001). The authors predominantly use methods of qualitative research.

The research is based on the theoretical framework that supports a thesis of their positive relationship. CSR is measured through economic, environmental, and social aspects and is primarily based on testing the relationship between CSR and reputation to determine whether the relationship is positive, neutral or negative. The authors describe and synthesize, with the use of statistical data, the dynamics and the evolution of the reputation. In the research the key dimensions of the reputation are analyzed. Secondly the relationship between CSR reputation and financial performance are shown in a model that creates a link with the variables.

Many researchers have concluded that it is generally positive, depending on which measures of financial performance are used. At the same time, corporate reputation is considered as a key mediator in the relationship between a firm's CSR and financial performance (Neda 2011).

In the research the case study methodology which has developed within the social sciences is used. Such methodology is applied not only in the social sciences, such as psychology, sociology, anthropology, and economics, but also in practice-oriented fields such as environmental studies, social work, education, and business studies. Case study research excels at bringing to an understanding of a complex issue or object and can extend experience and add strength to what is already known through previous research. Case studies emphasize detailed contextual analysis of a limited number of events or conditions and their relationships. The research adopts the view of the business case illustrated by the syncretic model (Berger et al. 2007) because it recognizes direct and indirect relationships between CSR and firm performance. This view allows the firm to value and appreciate the complex relationship between CSR and firm performance. Such appreciation may enable the firm to identify and exploit new opportunities (Carroll and Shabana, 2010).

The main contribution of this line of research is to explain the important relation between the CSR, reputation and financial performance.

## 3. CSR and reputation: the key dimensions

According to past and recent research, it is quite clear that corporate reputation significantly contributes to long-term competitive advantages of organizations, and that is its strategic success factor. In the first sections it already has been discussed that reputation is not easy to define because it depends on various stakeholders' views, intentions and expectations of enterprise performance. Stakeholders, especially investors and suppliers, would see enterprise reputation from a different angle than the customers (Neda 2011).

A set of reputation components has been developed by the Reputation Institute (2013b) for its Global Pulse ranking of corporate reputation, based on Fombrun's Reputation Quotient (RQ). This ranking uses seven dimensions of reputation:

For this reputation is considering driven by seven key dimensions (Fig. 1):

1. Financial Performance
2. Products / Quality of services
3. Innovation
4. Workplace quality
5. Governance and transparency
6. Citizenship
7. Leadership (Barron and Rolfe, 2011).

Three key dimensions belong to the area of CSR: workplace quality, governance and transparency, citizenship. Workplace quality considers how the company is an appealing place to work and if it treats its employees well; it is not only if the workplace is pleasant and rewarding but also if the company is able to recognize the capabilities of the employee. Governance and transparency, understood as ethical and transparent management, they consider if a company is a responsibly-run company and if it behaves ethically and if it is open and transparent. Citizenship considers a company being a good corporate citizen and if it supports good causes and if it protects the environment.

These 3 key dimensions together represent, for companies, the 41,9% of their reputation: workplace quality 12,7%, governance and transparency 15,5%, citizenship 13,7%. If positive, it drives consumers to trust the brand, to admire and support it.

These 3 key dimensions with the products/services quality must be controlled because they can cause major damage to reputation. Lord Browne, former Chief Executive of BP, identified three causes of reputation damage for business, each of which occurs when stakeholders lose trust in the company. First, reputation can be damaged when products or services fall short of expectations. If the customer stops believing in the product, their willingness to buy it diminishes. Also their perception of the brand may change, and the trust they have in the company may be damaged.

Second, reputation is damaged by poor employee conduct. Companies are groups of people. A company's employees are primary stakeholders, in the modern era where there is an overall decline in trust in institutions they can be a source of reputation strength.

The third area of reputation danger that Lord Browne considered was causing social or environmental harm. In society, individuals are expected to act in a certain way, respecting each others' rights and the environments in which they live. Companies are no different. As 'corporate citizens' they must behave in a way that is in line with societal values, and the values they promote in their own companies. (Griffin, 2010).

## 4. CSR and reputation the actual situation

Reputation is increasing in importance and it is on the agenda of companies: 56% of the Executive Management and Board of Directors say that reputation is a high priority and 63% Reputation Management expect to be a higher priority for their company in the next 2-3 years.

This emerges from the research of Reputation Institute made in 2013: The CSR RepTrack study surveyed more than 2.000 companies of 25 sectors, 55,000 consumers from 15 countries.

Results show that 59 percent of consumers would also go out of their way to communicate something positive about companies they see as being good corporate citizens compared to only 23 percent for companies perceived to be weak in this area.

The report also finds 73 percent of global consumers are willing to recommend, companies that are perceived to be delivering on their CSR programs. While consumer support for companies perceived to be socially responsible is strong, however, the amount of companies believed to be actually delivering on their CSR programs has dropped from 12 in 2012 to only five in the 2013 study. Study results show that companies that understand how to create positive perceptions of their CSR programs gain the benefit in terms of sales and recommendations from consumers.

The opinion of CEOs on sustainability and reputation is studied also in a survey of 1.000 chief executive office (CEOs) across 103 countries and 27 industries made in 2013. The research shows that 81% of CEOs believe that the sustainability reputation of their company is important in consumers' purchasing decisions and 64% see the consumer as a key stakeholder in influencing their approach to sustainability, 93% of CEOs see sustainability as important for the future success of their business and 78% see sustainability as an opportunity for growth and innovation (UN, 2013).

The opinion of consumers is also studied by Come Communication in the Eco Global CSR study. The survey shows that global consumers have clear and specific expectations for the role companies should play in addressing social and environmental issues with 93 percent wanting to see more of the products and services they use support corporate social responsibility efforts. Nine in 10 consumers surveyed want companies to go beyond the minimum standards required by law to operate responsibly and address social and environmental issues, a sign that CSR is no longer an option, but a requirement, for business. (Cone, 2013)

A study about the opinion of manufacturers and consumers is made by Underwriters Laboratories (UL) published in 2013 found while 90 percent of manufacturers agree that the environment is becoming more important in their decision-making process, 40 percent of consumers say manufacturers are not doing enough in terms of environmentally friendly manufacturing procedures or products. UL says this shows the environment has continued to advance as a priority; however, consumers seem to doubt the intentions of manufacturers in their environmental commitments. The research also found that while 45 percent of consumers said they were willing to pay more for eco-friendly products in 2012, that number increased to 68 percent in 2013.

## 5. The model

Companies that understand how to create positive perceptions of their CSR programs gain the benefit in terms of sales and recommendations from consumers. However, even the biggest companies in the world are struggling to get their message across to consumers despite spending upwards of $100 million on a year on their CSR programs (Reputation Institute, 2013a).

CSR initiatives frequently contribute to the development and formation of a corporate identity, independent of the motivation for the initiating the CSR activities (Janney J.J. and Gove S. (2011).

Good reputations are built on trust created over time. This trust comes from the performance, behavior and values of the business. Having a good reputation can see a business through the bad times, when others with more fragile reputations may flounder. A good reputation can be a leverage for competitive advantage, or influence policy. Enlightened companies can deploy the value of their reputations to create the climates in which they can do better business.

Good reputation could increase sales or revenue and reduce operating costs; thus, reputation is viewed from the aspect of financial benefits and is directed through reputation - financial performance relationship. Besides this relationship, it was found that financial performance affects reputation (Rose and Thomsen, 2004, p.208), so we could talk about a “reputational vicious circle”. In that case, motivation to accept social performance as one of the reputation determinants could be related to the outcomes of financial gains.

The model (fig. 2) shows how investment in CSR and in other key dimensions of the reputation impact on the financial performances of the company.

Starting from the investments in CSR and in other key dimensions of the reputation, the model shows how such investments can be decisive for the fundamental variable of notoriety and reputation. In fact, such investment influences the perception that stakeholders have of the firm, allowing them to assess its reliability, and generates an appreciation of the firm, which is the engine behind the trust of customers and the environment.

The investments in CSR depend on the culture and the policy of the company. Each investment in CSR is an investment that can maintain the value-loyalty-faith triad of the consumers and is therefore synonymous with reputation (Gazzola & Mella, 2006).

## 6. Italians best practices

Reputation Institute (2013a) has analyzed 100 Italian companies and 10 thousand consumers interviewed: Giorgio Armani out on top as the most socially responsible company, followed by, Ferrero, BMW, Mercedes Benz, Barilla, Volkswagen, Indesit, Luxottica, HP, Piaggio (fig. 3).

The opinion of Italian about the willingness to purchase for consumers are: in top 10 companies 71% and in the bottom 10 companies 26%.

Giorgio Armani Group is the first for: ideal workplace, leadership, and products/services quality. The company is in place n. 31 of global CSR reputation. The Giorgio Armani Group is aware of being called for a stronger and more concrete commitment in the field of Corporate Social Responsibility. The group started long time ago a virtuous process for the development of projects in line with relevant international environmental, social and economic standards. In this context, the company's policy gives particular attention to the protection of consumers and to the impact on the environment. Armani wants to involve all stakeholders in business. In recent decades, the collaboration with its suppliers has been an added value which brought the reliability and consideration of the brand to levels of absolute prestige in the international arena.

Ferrero is the first for: citizenship, governance and transparency, innovation. The company is in place n. 30 of global CSR reputation. Chain sustainability forms an important focus for Italian family-owned company. Ferrero's CSR strategy is based on four pillars: the products, the Ferrero Foundation with its basis in the Italian town of Alba, Ferrero's Social Enterprises in South Africa, Cameroon and India, and the company's own international Kinder+Sport programme which promotes an active lifestyle among young people.

BMW is the first for performance. The company is in place n. 4 of global CSR reputation.

BMW Corporate Social Responsibility means being a catalyst for change. They strive to set examples for those we work with, for, and around with high standards of environmental management, corporate giving, and maintaining a diverse workforce. Through education, environment, and other philanthropic efforts, they carry out the pledge to diversity. As citizens of both the global corporate economy and the Upstate community, they integrate the commitments into everything they do at BMW

## 7. Conclusion

The research reveals a significant positive association between corporate social responsibility and corporate reputation. The results suggest that more socially responsible firms possess better corporate reputations. The study demonstrates that CSR improves reputation and than improving financial performance.

Having a good reputation can drive business success in the long-term. Losing reputation creates an obstacle to this success.

There is the growing realisation that reputation is a long-term asset that requires strategic thinking in order to drive real value for shareholders.

Businesses are not always good at long-term thinking. Just as politicians are programmed to think in electoral cycles, business executives often find it difficult to see beyond the next quarterly report. But just as the challenges to reputation are becoming more long-term in nature, climate change being the most obvious issue that requires strategic planning many decades into the future, so the real financial value of a good reputation is being viewed in the same timeframe.

The model of the Connection with CSR, reputation and performances shows the relationship between corporate social responsibility and corporate reputation. In the model CSR has positive impact on reputation and reputation has positive impact on performance that can motivate, justify and drive CSR investment activities. The study confirms the significant relationships between CSR and corporate reputation.

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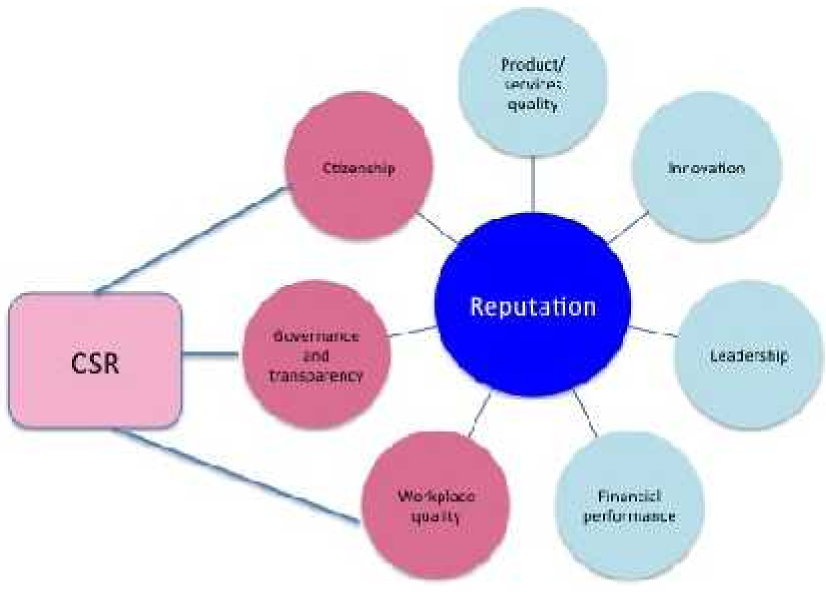
**Biographical sketch**

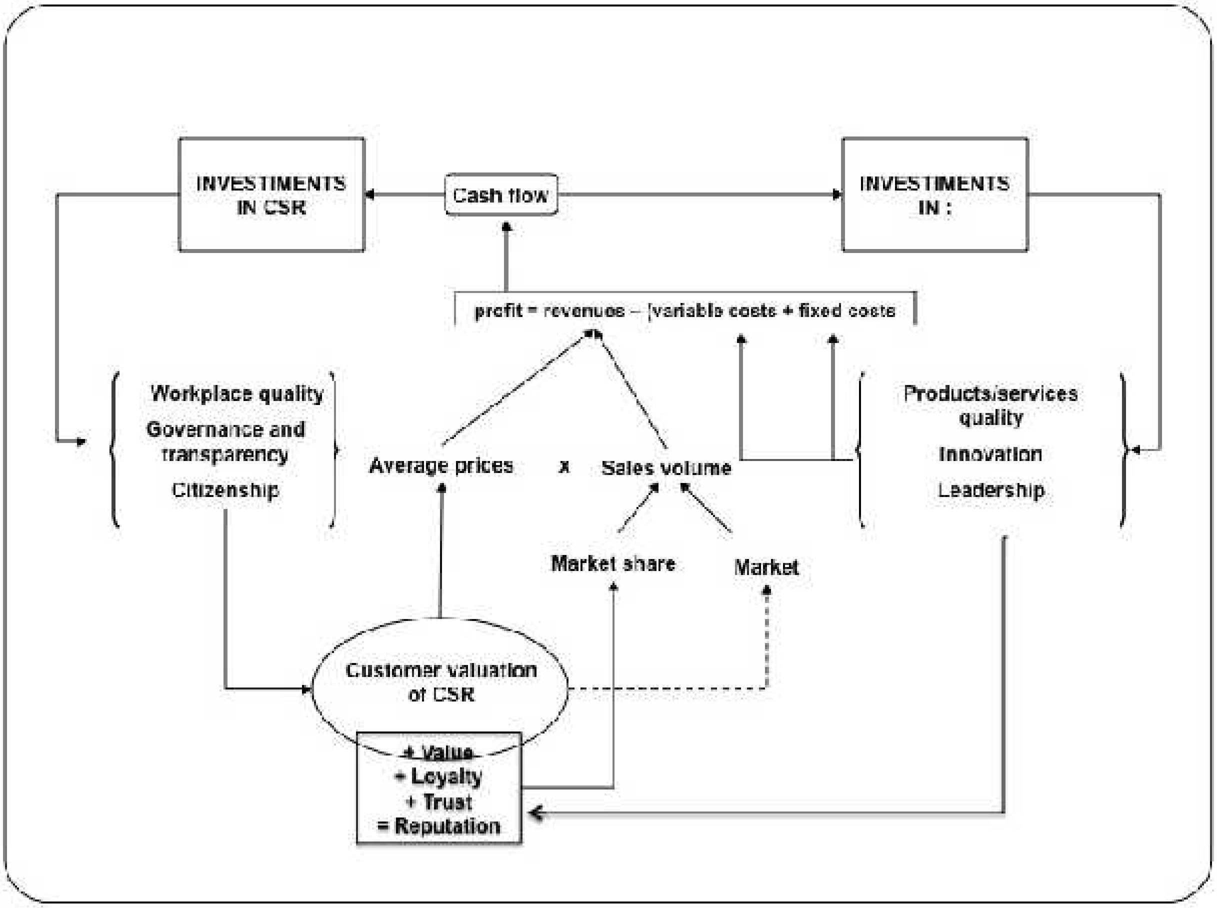
Patrizia Gazzola is Assistant Professor of Accounting and Financial Statement at the Department of Economics, Insubria University of Varese, Italy. She is Member of the Scientific Board of the Research Center on Ethics in Business and Corporate Social Responsibility (CREARES). She conducts research in Corporate Social Responsibility, in Sustainability Reports and in Financial Statement. She writes articles and books about Corporate Social Responsibility.
Email: patrizia.gazzola@uninsubria.it

*Figure 1*. The reputation dimensions




Surces: Reputation Institute, 2013a with modification

*Figure 2*. Connection with CSR, reputation and performances




Source: Gazzola 2013 with modifications

*Figure 3*. Top ten Italian companies for CSR, 3 years


Source: Reputation Institute 2013c