Investigation of the Impact of Social Responsibility on Organizational Performance

Marian Cazacu
Andra-Nicoleta Ploscaru
Daniela Victoria Popescu
University of Craiova, Romania
cazacumariantbm@gmail.com
andraploscaru@yahoo.com
dpopescu1964@gmail.com

Abstract

In recent years there has been a significant increase in interest in Corporate Social Responsibility (CSR), which is an essential research topic. In addition, corporate scandals have drawn public attention and once again emphasized the importance of CSR. As a result, this topic has received academic attention and is becoming a core issue for many organizations. In this research, we propose to build a methodology for analyzing the impact of social responsibility (SR) on organizational performance (OP) based on a review of the specialized literature. After thoroughly analyzing the specialized literature, a methodological framework was built based on a questionnaire applied to employees of large companies and SMEs operating in Romania. The paper demonstrates using SEM significant direct and indirect relationships between SR and OP.

Key words: physical work environment, health, well-being, organizational results
J.E.L. classification: M14, O15

1. Introduction

Today's global business environment is affected by social and environmental issues. As with large firms, SMEs must address these issues to remain viable and competitive (Arend, 2014). SMEs and large corporations share similar concerns when strategizing CSR initiatives: regulation, litigation, and cost avoidance (Sarbutts, 2003). The challenge for SMEs is to manage the threat of these three concerns immediately. Large corporations possess the resources to optimize the cost versus benefit of social responsibility activities, unlike smaller companies with more limited means (Sarbutts, 2003).

Researchers have shown that CSR presents significant issues for SME leaders. Individual SME leadership independently determines the degree of CSR involvement ad hoc, with resources being the major constraint (Sen and Cowley, 2013). Some researchers have suggested that the relatively small amount of resources and the tendency towards risk aversion lead SMEs to devote less effort to social responsibility, despite their owners' ethical and moral intentions (Sarbutts, 2003). Torugsa et al. (2013) conveyed that as a consequence of low financial and human capital, some SMEs may be able to only partially undertake proactive CSR activities or carry out limited social engagements in isolation, despite the owners' philanthropic motivations, a pressure to expand social networks from employees, the community and a competitive business environment.

The work is made up of five sections. The first section makes an introduction, and the second presents the theoretical framework. The third section includes the methodology, and the fourth is the findings. Finally, the last section provides the conclusions.

2. Theoretical background

A literature review on this topic indicated that SMEs' methods to manage and measure their financial performance are complicated depending on their business environment, management practices, and capabilities (Bocean, 2007a, 2007b). Bahri et al. (2017) argued that today's firms, especially SMEs, are forced to innovate, adapt strategies and regularly review performance monitoring methods due to the changing investment climate and the voluminous amount of information that needs to be reported in their financial statements. Studies have further indicated that SMEs face difficulties in implementing performance management and measurement systems due to the absence of formalized organizational strategies and structures, human resource limitations, and financial constraints (Bahri et al., 2017). Garengo et al. (2005) revealed that SME owners or managers usually do not possess a complete understanding of the critical success factors needed to develop and design effective performance management strategies (Bocean, 2015; Sitnikov and Bocean, 2010; Sitnikov and Bocean, 2012; Bocean and Sitnikov, 2015). These conditions are further complicated because existing models for managing and measuring performance are designed primarily for large firms. Models include the balanced scorecard, the performance pyramid, and the formal Cambridge assessment process, which most researchers have considered unsuitable for application within SMEs (Garengo et al., 2005; Garengo and Bititci, 2007). Implementing financial performance management and measurement is crucial for businesses. These performance management implementation difficulties faced by many SMEs could affect employee learning, stakeholder communication, and reputation (Bahri et al., 2017; Vărzaru and Bocean, 2021; Puiu et al., 2022; Vărzaru et al., 2022). Apparent inconsistencies in the measurement of SME financial performance and evaluation practices highlight the difficulty in conducting empirical studies on the financial performance of SMEs.

The literature indicated that the approach to financial performance and CSR variables was common in empirical social research. CSR dimensions as variables appear predominantly in studies evaluating social performance. Expressly, the environment, employees (workforce), community, and indicators that characterize customers represent the majority of social performance variables, followed at a distance by suppliers and shareholders (Boaventura et al., 2012). The most widespread variable used as a direct measure of financial performance in research on the relationship between SR and OP is ROA, followed by ROE (Boaventura et al., 2012). In addition, the literature has revealed that studies using perceptual measures such as questionnaire surveys to assess financial performance frequently include sales and profits as indicators.

3. Research methodology

In recent years there has been a significant increase in interest in Corporate Social Responsibility (CSR), which is an essential research topic. Furthermore, corporate scandals have drawn public attention and once again emphasized the importance of social responsibility. As a result, this topic has received academic attention and is becoming a core issue for many organizations. In this research, we propose to build a methodology for analyzing the impact of social responsibility on organizational performance based on a review of the specialized literature. After thoroughly analyzing the specialized literature, a methodological framework was built based on a questionnaire applied to employees of large companies and SMEs operating in Romania. The relationship between SR and OP will be examined using inferential statistical techniques such as correlation analysis, analysis of associations and variance, analysis of artificial neural networks, and structural equation modeling. As a result, the findings not only measure the direct relationship between SR and OP but explain this relationship through intermediate variables identified in the literature as implications of social responsibility.

Therefore, this method will simultaneously measure the links between social responsibility and each business benefit predicted to follow from CSR, including increased employee attraction, motivation, and retention, customer attraction and loyalty, access to capital, and company reputation. In addition, the method will also measure the relationship between these benefits and financial performance, resulting in a complex model. Figure 2.1 illustrates the proposed model.

To test the direct relationship between SR and OP and also the indirect relationship between SR and OP mediated by the proposed business benefits resulting from CSR: enhanced reputation; improving customer attraction and loyalty improving employee attraction, motivation and retention; improved access to capital, the research used structural equation modeling.

Figure no. 1. Theoretical model
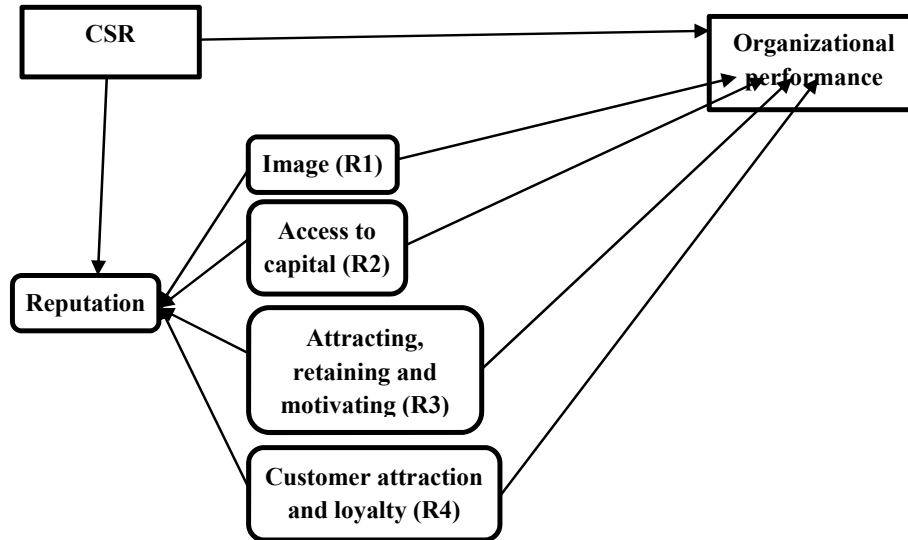
Source: Own construction based on literature review

The data used were collected in a questionnaire applied to a number of 267 employees of SMEs in Romania, in a study carried out in September 2022. To evaluate each of these relationships, the following hypotheses were proposed:

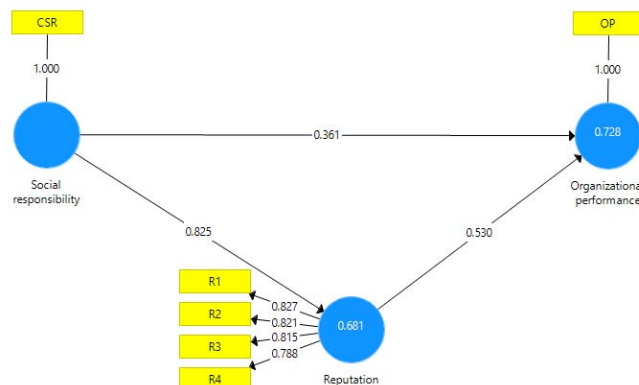*H1: There is a significant positive direct relationship between SR and OP.*

H2: There is a significant positive indirect relationship between SR and OP, mediated by organizational reputation.

To test the hypotheses, we used structural equation modeling that describes the direct and indirect relationships between variables.

4. Findings

Using SmartPLS V3.0, we conducted partial least square structural equation modeling. Figure no. 2 shows the research model.

Figure no. 2. Applied model

Source: Own construction using SmartPLS v3.0

Figure no. 2 illustrates the validity of hypothesis H1. There is a direct significant positive relationship between SR and OP.

The reliability and validity of the model are presented in table no 2.

Table no. 2. Validity and reliability

	Cronbach's Alpha	Rho A	Composite Reliability	Average Variance Extracted (AVE)
Organizational performance	1.000	1.000	1.000	1.000
Reputation	0.829	0.832	0.886	0.660
Social responsibility	1.000	1.000	1.000	1.000

Source: Own construction using SmartPLS v3.0

Table no. 3 presents the direct and indirect effects between SR and OP.

Table no. 3. Path coefficients and specific indirect effects

	Original Sample	Sample Mean	Standard Deviation	T Statistics	P Values
Reputation -> Organizational performance	0.530	0.535	0.049	10.877	0.000
Social responsibility -> Organizational performance	0.361	0.357	0.052	6.941	0.000
Social responsibility -> Reputation	0.825	0.824	0.020	41.589	0.000
Social responsibility -> Reputation -> Organizational performance	0.437	0.440	0.042	10.342	0.000

Source: Own construction using SmartPLS v3.0

Table no. 3 illustrates the direct and indirect relationships between SR and OP, which validates hypothesis H2. CSR directly influences organizational performance and is a significant indirect influence mediated by organizational reputation. Hypothesis H2 is fully validated.

5. Conclusions

The relationship between SR and OP remains unclear despite being the most questioned area of CSR. When analyzed directly, a weak positive relationship between SR and OP was found. In our research, we propose an analysis of both direct and indirect relationships through structural equation modeling. From previous research using SEM, it can be found that SR has a strong positive relationship with reputation, and OP. Thus, the main contribution of this research is that it responds to the call made by many authors to provide a finer understanding of the relationship between SR and OP.

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