Effects of Corporate Social Responsibility on BtoB Relational Performance

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Abstract
Recently, the influence of corporations has been increasing rapidly, and many types of stakeholders have become involved. Thus, the role of the corporate ability of stakeholder management has become more important in the overall performance of corporations. One of the most effective tools for managing various stakeholder groups is corporate social responsibility (CSR). Previous CSR studies have focused on how CSR activities influence relationships among corporations, customers, investors, and employees. The present study examines the effect of CSR on the relationship between corporations and their counterparts such as suppliers and partners, among others, which no study has explored. Thus, this study empirically examines the relationship between CSR activities and BtoB transaction performance. The results suggest that corporations with excellent CSR activities are likely to show better relationship performance in terms of satisfaction, relationship value, relationship commitment, dependence, cooperation, and communication.

Keywords: Corporate social responsibility, Relational performance, BtoB, Satisfaction, Relationship value, Relationship commitment, Dependence, Cooperation, Communication

1. Introduction
The influence of corporations has been increasing rapidly, and corporations have established relationships with many types of stakeholder groups. Thus, there have been considerable differences in stakeholder interests. In business processes, investors want to sell goods at high prices and gain more profits, but customers want to buy at the lowest possible prices. Thus, the management’s ability to manage such differences in stakeholder interests has considerable influence on corporate performance.

Previous research has suggested several research methods for analyzing the relationship management of various stakeholders, and one of the most effective methods has been corporate social responsibility (CSR). Previous CSR research has focused on the influence of CSR activities on the relationship among stakeholders such as investors, customers, and employees (Aguilera et al., 2007; Ban & Kim, 2009; Cochran, 2007; Klein & Dawar, 2004; Greening & Truban, 2000; Jang & Choi, 2010; Ji, 2006; Kim & Kim, 2010; Sen et al., 2006). However, early studies did not address corporate counterparts such as suppliers and partners, even though they are important stakeholders that have considerable influence on corporate performances. Non-profit CSR activities have not been considered for corporate performance because the corporation’s relationship with its counterparts is typically based on profit-oriented activities. Otherwise, it is still possible that CSR activities are very effective in the BtoB transaction relationship. For example, a corporation with excellent CSR activities can be perceived as a law-abiding and ethical organization that is highly unlikely to engage in opportunistic behavior and default on contracts. Therefore, unnecessary costs in BtoB transactions, such as monitoring and transaction-specific investment costs, can be reduced, and relationship performance can be improved.

Thus, it is very likely that CSR has considerable influence on BtoB transactions, even though previous research has not considered this influence. Thus, this study examines the ways in which CSR affects BtoB transactions. For a better understanding, this study provides a review of previous research on CSR and empirically verifies the way in which CSR affects relationship performance, one of the main performance variables in BtoB transactions.

2. Literature review
2.1 Definitions of CSR
Since Bowen (1953) defined CSR as a method employed by corporations to pursue policies, decisions, and actions for the social purpose and value, many researchers have defined CSR in a number of different ways. Such definitions have typically been based on two representative theories: agency theory and social contract
theory. CSR researchers following agency theory have suggested that corporations are responsible only to stockholders because stockholders authorize the management to operate corporations (Friedman, 1970; Jensen, 2000). On the other hand, those researchers following social contract theory have suggested that corporations have an implied contract with society and that this contract necessitates them to be faithful to their roles to develop the society under the contract (Davis, 1967; Donaldson & Dunfee, 1999).

Carroll (1979, 1991) provides a notable definition of CSR: “corporate social responsibility involves the conduct of a business so that it is economically profitable, law abiding, ethical and socially supportive.” Carroll also developed a CSR pyramid composed of economic, legal, ethical, and philanthropic responsibilities. The present study is based on Carroll’s definition and analysis of CSR.

2.2 Research on effects of CSR on stakeholders

Previous business administration research has focused on the effects of CSR on the relationship among individual stakeholders, and early studies examining CSR effects have addressed the relationship management of investors. Thus, previous research has focused mainly on the effects of CSR on corporate financial performance. According to Moskowitz (1972) and Vance (1975), CSR has a positive effect on stock prices, and according to Bragdon & Martin (1972), Parket & Eilbirt (1975), and Sturdivant & Ginter (1977), corporations with excellent CSR activities are more likely to show better financial performance in terms of their ROE, EPS, profit margin, and net margin, among others. This positive relationship between CSR and financial performance can improve the relationship between the corporation and its investors, and it can also have a direct effect on investors’ investment decision, as indicated by Sen et al. (2006) and Folkes & Kamins (1999). Previous research examining the role of CSR in marketing has focused mainly on customers. According to Brown & Dacin (1997), corporate capacity and CSR, two main determinants of corporate relationships, can generate positive attitudes toward the corporation and its products as well as increase purchase intention. Barone (2000) suggested that customers have a tendency to buy goods made by corporations engaging in CSR activities if they cannot derive any benefit from competitive brands. According to Klein & Dawar (2004), the halo effect resulting from the CSR association can have a positive effect on the evaluation of the corporations and its brands, and CSR activities can limit brand devaluation in a brand crisis. Another effect of CSR can be found in the relationship between corporations and their employees. According to early research, employees are more likely to have confidence in corporations with excellent CSR activities resulting in higher organizational commitment (Maignan et al., 1999), job satisfaction, and increased HRM capacity (Greening & Turban, 2000; Sen et al., 2006). Aguilera et al. (2007) suggested that employees’ job satisfaction, commitment, turnover rate, and job performance can differ depending on what they perceive from actions of their corporation, and they argued that CSR performs an important role by allowing employees to evaluate how their corporation administers justice.

As shown above, CSR has considerable influence on stakeholders in a wide range of ways and has a positive effect on corporate performance. However, few studies have examined the ways in which CSR affects the relationship among BtoB parties such as suppliers. Thus, this study attempts to close the gap in early research and investigates the effects of CSR on BtoB transactions to extend CSR research.

3. Hypotheses

According to Vaaland et al. (2008), most of the previous studies examining the role of CSR in marketing have examined the effects of CSR activities only from the end user’s point of view, including customers or employees (as internal customers). However, to use CSR activities as important strategic tools for improving corporate performance, CSR researches should take other approaches by a wider range of stakeholders such as corporate counterparts and employees as internal customers (Donaldson & Preston, 1995). In terms of performance variables, previous marketing research on BtoB transactional performances has used variables reflecting relationship characteristics related to BtoB transactions. Thus, the present study uses such variables for examining the consequences of BtoB CSR activities.

3.1 Relationship quality

3.1.1 Satisfaction

In traditional marketing research, satisfaction has been considered to be a major factor in the corporation’s strategy, long-term profit, and market value (Fornell et al., 2006; Grua & Rego, 2005). The relationship between satisfaction and CSR activities can be explained by the “generalized customer” concept. Generalized customers, including those who buy goods and services of particular corporations, refer to all the current and future members representing various types of stakeholders that corporations have to consider, and the concept of generalized customers also includes corporate counterparts (Daub & Ergenziner, 2005; Luo & Bhattacharya,
According to Luo & Bhattacharya (2006), generalized customers experience higher satisfaction when they purchase goods and service provided by responsible corporations. In addition, corporations with excellent CSR activities tend to be more knowledgeable about such generalized customers, contributing to the creation of higher satisfaction (Jayachandran et al., 2005).

The study by Oliver & Swan (1989) supports the above results. They demonstrated that fairness and expectations affect the creation of satisfaction by extending the expectation-disconfirmation model, which is a traditional model for satisfaction building. In other words, they insisted that expectations do not build satisfaction by itself but together with fairness. According to previous research, this point of view can be applied to the BtoB relationship (Trawick et al., 1991). Because fairness is a core factor in CSR activities, this theory can also be applied to CSR activities (Vaal et al., 2008).

H1: Satisfaction is positively related to the CSR evaluation of corporate counterparts.

3.1.2 Relationship value

Value, a core marketing concept, is defined as the difference between benefits and sacrifices (Hansen et al., 2008). Because the BtoB transaction is a multi-dimensional construct, its evaluation is always difficult (Vaaland et al., 2008). The evaluation of core dimensions of multi-dimensional factors affects other dimensions, and reputation is one of the core dimensions (Hansen et al., 2008). Reputation has an appealing effect when a corporation or its good is compared to others, and it creates a halo effect around other dimensions of the corporation or its good (Brown & Dacin, 1997; Selnes, 1993). CSR activities perform the same role as prestige and create a halo effect, and the halo effect increases the relationship value by increasing overall benefits and reducing costs of BtoB transactions (Klein & Dawar, 2004).

H2: Relationship value is positively related to the CSR evaluation of corporate counterparts.

3.2 Long-term orientation

3.2.1 Relationship commitment

The empirical study by (Lichtenstein et al., 2004) suggested that customers prefer to buy goods made by corporations with excellent CSR activities, CSR activities induce the customer’s identification with the corporation practicing CSR and the purchase behavior of customers is a relational reaction, not a transactional reaction. This type of finding can also be found in early studies such as Bhattacharya & Sen (2003), who suggested that the customer’s identification induced by excellent CSR activities can produce not only a purchase intention but also a long-term relational reaction for a corporation or its brand. This long-term-oriented relational reaction is included in the definition of relationship commitment (Kumar et al., 1995). According to Kumar et al. (1995), relationship commitment can be defined in terms of positive emotion, the intention to have a long-term relationship, and investment intention. Thus, relationship commitment can be considered to be an attitude or a behavior for a long-term relational reaction. In particular, the study by Maignan & Ferrell (2004) provides support for the above findings. They suggested that the customer’s identification induced by CSR activities can form a relationship based on the psychological attachment between the corporation and its customers and that this identification can transform customers’ efforts and commitment into a corporate performance and increased profits.

H3: Relationship commitment is positively related to the CSR evaluation of corporate counterparts.

3.2.2 Dependence

Dependence can be defined in terms of the importance of the relationship and the difficulty in replacing the relationship (Kumar et al., 1995). In the case of high dependence, a long-term transactional relation is preferred because the overall performance is highly dependent on the current transactional relationship. Thus, dependence is one of the major dimensions of the long-term orientation (Kale, 1986). CSR activities increase investment intention (Sen et al., 2006). Well-regarded CSR activities can enhance the legitimacy of corporate activities and corporate reliability, triggering relationship-based investment in corporations (Leonidow et al., 2005; Suchman, 1995). However, if there is an alternative when the corporation is perceived as lacking legitimacy or reliability, such relationship-based investment is not strongly activated because it may lead to short-term losses (Frazier et al., 1989; Mishra et al., 1998). Thus, CSR activities can increase relationship-based investment and investor dependence (Mishra et al, 1998).

H4: Dependence is positively related to the CSR evaluation of corporate counterparts.

3.3 Cooperative atmosphere

3.3.1 Cooperation
A number of studies have identified legitimacy as one of the common factors in CSR activities (McWilliams & Siegel, 2001). In particular, previous studies have extended social legitimacy, which is related to CSR activities, to ethical legitimacy, clarifying the relationship between CSR activities and legitimacy. According to Suchman (1995), social legitimacy, referring to the positive normative evaluation, is similar to the concept of CSR activities because the social legitimacy is fundamentally different from selfish actions. The empirical study of Handelman & Arnold (1999) demonstrated that corporations perceived as being legitimate can gain support from its stakeholders and that this support can be explained as cooperative behavior (Weitz & Jap, 1995).

The relationship between CSR activities and cooperation can be evaluated from various perspectives. According to Hosmer (1995), stakeholders are likely to consider corporations that recognize social problems and seek ethical solutions as being-reliable. This reliability makes possible the formation of a cooperative transaction relationship that excludes the suspicion of corporate counterparts or the protection of transaction-specific assets (Leonidou et al., 2005).

H5: Cooperation is positively related to the CSR evaluation of corporate counterparts.

3.3.2 Communication

Good communication typically brings reciprocal support and forms a cooperative atmosphere (Granovetter, 1985; Macneil, 1980). Thus, the present study suggests communication as another important factor influencing the formation of a cooperative atmosphere. The positive effects of CSR activities on the communication can be explained by the concept of identification or the halo effect (Klein & Dawar, 2004; Lichtenstein et al., 2004).

Identification can be defined in terms of overlap between one’s self-perception and perception of his or her identity (Dutton et al., 1994) and can be explained by social identity theory. According to this theory, people usually form their individual identity and social identity simultaneously, and they identify themselves as members of various social groups (Brewer, 1991; Tajfel & Turner, 1985). In their study of customer behavior, Lichtenstein and his colleagues (2004) suggested that outstanding CSR activities can help customers to identify more closely with the corporation. This point of view has been used in many studies in various contexts, including organizational contexts, and thus, it can be applied to BtoB transaction situations (Bhattacharya & Sen, 2003). In addition, once identification is formed, the BtoB relationship can be extended to relationship orientation, which can lead to better communication (Fisher et al., 1997; Weitz & Jap, 1995).

In addition to the identification process, the relationship between CSR activities and communication can be explained by the halo effect, which is a concept used in marketing and a number of other fields. It also indicates the phenomenon in which preconceptions regarding one evaluation affect another evaluation (Thorndike, 1920). The halo effect, frequently used in research on customer behavior has been used for explaining the way in which the overall attitude toward a particular brand affects the evaluation of specific attributes of the brand (Beckwith & Lehmann, 1975). According to Klein & Dawar (2004), effective CSR activities can lead to the halo effect, enhancing the customer’s overall evaluation of the corporation, making the BtoB relationship more important as a result of increased expectations of rewards for the communication-related time, efforts, and opportunity costs, and ultimately improving communication (Anderson & Weitz, 1989). The above results support the view-point of stakeholders. According to Sen et al. (2006), stakeholders who have a positive view of CSR activities tend to be positively reactive to the investment area of their corporation. Thus, communication is a very important investment factor in corporate (Anderson & Weitz, 1989).

H6: Communication is positively related to the CSR evaluation of corporate counterparts.

4. Method

4.1 Data collection and analysis method

Corporations that engaged in BtoB transactions were considered as the research subjects. These corporations tended to be located near metropolitan areas, including Seoul and Gyeonggi Province (69.3%), and were in existence for more than ten years (68.4%). Their annual sales exceed 10 billion won (69.0%). The questionnaires were developed with one core professional managing BtoB transaction from each corporation. In terms of the respondents, there were more males than females (73.9%), they occupied managers or higher positions (72.4%), and their tenure was greater than two years (80.2%).

A total of 325 corporations participated in the survey, but some were excluded as a result of erroneous or incomplete data, resulting in a total of 268 corporations for the actual analysis. SPSS 12.0 and LISREL 8.30 were used for the statistical analysis.
4.2 Measurement

4.2.1 Corporate social responsibility

According to Carroll (1979), corporate social responsibility involves a type of business conduct that it is economically profitable, law abiding, ethical, and socially supportive. Based on Carroll’s definition, Maignan and Ferrell (2000) developed a measurement scale for CSR activities, composed of economic, legal, ethical, and philanthropic responsibilities. The reliability and validity of this scale have been verified in the U.S. and France. A total of 18 scales were developed through this process. The measurement items, developed by Maignan and Ferrell (2000), were modified and used for the present study. Profit maximization, cost reductions, and long-term strategy planning were used for economic responsibility. Law observance, labor law observance, and discrimination prevention were selected for legal responsibility. Weak regulation, corporate reliability, and corporate partnership were used for ethical responsibility. Finally, donations, energy and raw material reductions, and local attribution were employed for philanthropic responsibility. A 7-point Likert scale was used for these 12 items.

4.2.2 Relationship quality

Two variables were selected for the dimension of relationship quality. One variable was satisfaction, which has been suggested as a core variable for relationship performance in previous marketing research. This study employed the measurement items suggested by Jap and Ganesan (2006). The measurement items for satisfaction were economic performance, goods, and support, but in this study, satisfaction was composed of six items in only one dimension and measured by a 7-point Likert scale. Relationship value, the other variable, has also been identified as a core variable for relationship performance in marketing research. Conceptually, relationship value can be defined as the difference between benefits and costs. In this study, relationship value was composed of four items modified from the measurement items in Hansen et al. (2008) and was measured by a 7-point Likert scale.

4.2.3 Long-term orientation

The long-term orientation, suggested by Ganesan (1994), was employed as a dimension of relationship performance. The long-term orientation was composed of relationship commitment and dependence. In this study, the measurement items for relationship commitment were partially modified from the items suggested by Kumar et al. (1995). Kumar and his colleagues elaborated and measured relationship commitment by using three dimensions: positive emotions, the intention to have a long-term relationship, and investment intention. However, the present study measured relationship commitment by using one dimension composed seven items and used a 7-point Likert scale. The other variable for the long-term orientation was dependence, which was defined in terms of the importance of the relationship importance and the difficulty in replacing relationships (Kale, 1986; Kumar et al., 1995). The measurement items for dependence were composed of five items related to the importance of the relationship and the difficulty in replacing relationships based on Kumar et al. (1995), and a 7-point Likert scale was used.

4.2.4 Cooperative atmosphere

Huntley (2006) suggested that a cooperative atmosphere is a core dimension for differentiating between the relationship-oriented BtoB relationship and the transaction-oriented BtoB relationship. According to Huntley, the cooperative atmosphere is formed only in long-term-oriented and reciprocal transactions, and thus, the cooperative atmosphere is one of the most important indicators for the transactional relationship. The present study included only two dimensions of the cooperative atmosphere such as cooperation and communication (McNally & Griffin, 2007) and a total of four measurement items suggested by Leonidou et al. (2005). Previous research on communication has used measurement items related to cooperative communication, but the present study employed items focusing on communication itself (Sheng et al., 2006). Sheng and his colleagues divided communication into instrumental and social communication dimensions, but the present study treated communication as one dimension and used a 7-point Likert scale for a total of eight items.

4.3 Reliability and validity

The measurement items mentioned earlier were tested for their reliability. To maximize internal consistency, a total of three items (one each from CSR activities, relationship value, and communication) were deleted. The reliability coefficient was much higher than Nunnally’s standard (0.70), and thus, all of the final items were considered to be highly reliable (Nunnally, 1978).

To verify their validity, this study used the SPSS 12.0 statistical package and differentiated the variables in terms of CSR and relationship performance. The exploratory factor analysis was conducted for each factor. The
principal component analysis was used for extracting the factors, and the varimax-rotation was used for the analysis. As a result of the exploratory factor analysis, a total of three measurement items were deleted because they were unclear to other factors. Two of the measurement items were associated with communication in the relationship performance category, and one was the intention to reduce operational costs for CSR activities. The number of measurement items and the reliability coefficient (both before and after the reliability analysis and the exploratory factor analysis for each variables) can be found in Table 1.

4.4 Testing of hypotheses

This study selected a total of six variables for relationship performance to verify the empirical effects of CSR activities on BtoB transactions and conducted a regression analysis to test the hypotheses.

Hypotheses 1 and 2 address the effects of CSR evaluation on relationship quality in BtoB transactions. The higher the evaluation of CSR activities, the greater the corporate satisfaction was in BtoB transactions (R^2 = .106, F = 31.573; p = .000). This may be because corporations with excellent CSR activities are likely to provide higher-quality goods and services. In addition, such corporations are likely to be more knowledgeable about their counterparts, perceive the needs of their counterpart, and use such knowledge to engage in fair transactions. These results suggest that corporations could make their counterparts more satisfied by focusing more on CSR activities. Hypothesis 2 was supported because the better the CSR evaluation of corporate counterparts, the higher the relationship value was (R^2 = .124, F = 36.787; p = .000). Excellent CSR activities can increase overall benefits that can be derived from BtoB transactions, reduce costs, and increase relationship value because CSR activities are likely to affect the corporation’s prestige, an important dimension of corporate evaluation. This suggests that corporations could reduce their costs and increase related benefits by engaging in various CSR activities.

Hypotheses 3 and 4 address the relationship between the CSR evaluation of corporate counterparts and the long-term orientation. Hypothesis 3 was supported because the better the CSR evaluation of corporate counterparts, the higher the relationship commitment was (R^2 = .090, F = 26.347; p = .000). The identification phenomenon induced by a favorable CSR evaluation of corporate counterparts can lead to relationship-oriented purchase behavior on a long-term basis, that is, commitment to a transactional relationship, not a temporary transactional purchase behavior. Hypothesis 4 addresses the effects of corporate CSR activities on dependence on corporate counterparts. CSR activities and dependence had a positive relationship (R^2 = .147, F = 45.981; p = .000). A favorable evaluation of CSR activities can lead to an increase in the overall corporate activities and an increase in corporate reliability, resulting in a high level of relationship-based investment and an increase in dependence on corporate counterparts. Eventually, corporations have to increase the level of CSR activities and establish mutual trust to form relationships based on high interdependence.

In terms of Hypotheses 5 and 6, which address the effects of CSR on the cooperative atmosphere of BtoB transactions, the better the evaluation of CSR activities of corporate counterparts, the greater the cooperation and communication was. CSR and cooperation had a positive relationship (R^2 = .217, F = 73.560; p = .000). This may be because corporations with excellent CSR activities are entitled to legitimacy and because corporate counterparts attempt to establish higher levels of cooperation with such corporations, which are perceived as unselfish. In addition, CSR activities can lead to higher levels of cooperation by increasing the reliability of counterparts. Therefore, corporations can obtain information on the CSR evaluation of their counterparts, and by using such information, they can minimize their monitoring costs and investments in transaction-specific assets that are unnecessary in BtoB transactions. Finally, Hypothesis 6 was supported because the higher the evaluation of CSR activities of corporations, the greater the communication was (R^2 = .103, F = 30.597; p = .000). This may be because an outstanding evaluation of CSR activities can lead to the identification phenomenon between their corporations and counterparts, resulting in relationship-oriented transactions and increases in BtoB communication. In addition, the formation of relationship-oriented transactions as a result of CSR activities can lead to increases in investments in communication. These results suggest that corporations could improve the level of communication by forming long-term relationship-oriented transactions with their counterparts through CSR activities and could establish a cooperative atmosphere. Table 3 summarizes the results.
5. Conclusion

5.1 Research summary and contributions

This study is initial research to extend the range of CSR to BtoB transactions. This study empirically verifies relationship between CSR activities and a variety of factors reflecting relationship performance.

For relationship performances, several variables considered in previous BtoB marketing research were employed by using various dimensions. First, relationship quality was selected as contemporary evaluation dimension of the transaction relationship. Relationship quality was widely used as a consequence variable in early BtoB marketing research, and researchers have developed a number of operational definitions for the variable. The present study used benefits and sacrifices in BtoB transactions (which reflect relationship values) as the measurement items for the most direct transaction relationship and included satisfaction for the transaction relationship. Second, the long-term orientation was used as a complementary dimension because the evaluation of the intention to have a long-term relationship is very important in the BtoB transaction relationship and because relationship quality has carried some of the characteristics of performance variables for the past and present. The measurement items for the long-term orientation included the intention to have a long-term relationship and dependence. The cooperative atmosphere may be described as corporate activities that improve the quality of transactional relationships, but Mcnally and Griffin (2007) suggested that the cooperative atmosphere is one of the most important performance variables in BtoB transactions in terms of marketing. The present study included cooperation and communication as the dimensions of the cooperative atmosphere.

The effects of CSR activities on the performance of individual relationships were examined, and all the proposed hypotheses were supported at a high level of statistical significance. These results are academically meaningful because the effects of CSR activities have been found in a research field other than those related to the performance of corporations engaged in existing CSR activities such as individual corporate performance and attitudes and behaviors of organization members and end users, among others.

The results have practical implications. Most corporations have investigated the effects of CSR activities on their customers or employees. However, according to the results of this study, CSR activities can increase purchase intention, improve customer’s attitudes, enhance employee commitment and satisfaction, and improve relationship performances in BtoB transactions. Thus, it is clear that corporations should focus more on CSR-related activities and that BtoB relationship performances should be considered as a performance measurement for weighing the benefits of CSR activities against the implementation cost. In addition, CSR can be used as an important indicator for selecting business counterparts. That is, if CSR is used as an important index for choosing corporate counterparts, then the BtoB transaction performance of the corporation may improve substantially because corporations with excellent CSR activities are likely to show high relationship performance.

5.2 Limitations and further research

This study is meaningful because it is initial research to examine the effects of CSR activities on BtoB transactions. However, this study is limited because of the lack of previous researches on this topic. Thus, this study focuses on the verification of CSR effects, not on the detailed processes. Therefore, future research should employ more detailed approaches to examine the effects of CSR activities on BtoB transactions. In addition, parameters and moderator variables between CSR and relationship performances, including the antecedents of CSR activities, should be considered.

Acknowledgement

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References


Table 1. Reliability test and exploratory factor analysis

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* Value: Relationship value

Table 2. Confirmatory Factor Analysis

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* Value: Relationship value

** p < .001