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NON-FINANCIAL BENEFITS OF CSR: AN EMPIRICAL STUDY

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ABSTRACT

CSR has been found to positively affect the financial success of firms. However, firm success is multidimensional, reflecting dimensions beyond just the financial. This paper sought to understand the role that CSR plays in affecting non-financial dimensions of firm success. Specifically, a link between CSR and three important non-financial measurements were studied. The findings are provocative. By studying a heterogeneous sample of firms, the data provided strong support for the hypothesized relationships; namely, CSR was found to lower employee turnover while positively affecting both customer satisfaction and firm reputation. These results confirm theory, in that CSR is as an activity that can help to meet the justice needs of employees while demonstrating equity and signaling positive impressions to external stakeholders.

Keywords: CSR, customer satisfaction, employee turnover, firm success, reputation.

NON-FINANCIAL BENEFITS OF CSR: AN EMPIRICAL STUDY

The economic value of CSR has long been tested by scholars (De Bakker et al., 2005; Griffith & Mahon, 1997; Orlitzky et al., 2003). This is not surprising, perhaps, given that attempts to justify the field seem to be through demonstrating a link between CSR and financial performance (Rowley & Berman, 2000). Similarly, Galbreath (2006) highlights that recent research across multiple fields in the study of organizations has placed strong emphasis on performance as the dependent variable of choice, arguably as a means to keep pace with a scholarly era dominated by economic interests of firms (cf. Walsh, et al., 2003). Although studying relationships between CSR and financial performance has been of prime interest and will likely continue, a small body of researchers has studied the impact of CSR on outcomes beyond the financial.

In their study, Maignan and her colleagues (1999) find that in a sample of American firms, CSR is linked with employee commitment and customer loyalty. In a similar study, Maignan and Ferrell (2001) find that CSR is linked with employee commitment in a sample of French firms. Brown and Dacin (1997) and Scholder Ellen et al. (2006), in studying US firms, find that CSR positively influences both consumers' purchase intent and their perceptions of companies' products. Lastly, studying firms from the Kinder, Lydenberg, Domini & Co. database, Greening and Turban (2000) and Turban and Greening (1997) find that demonstrating CSR is important for attracting prospective employees. While each one of these studies offers important insight, continued research is necessary to further untangle our understanding of how and under what conditions CSR benefits firms (Rowley & Berman, 2000). Additional non-financial benefits that have seen little to no empirical study include employee turnover, customer satisfaction and firm reputation. Each of these variables is important given their influence on overall firm success.

According to Becker and Huselid (1998), employee turnover has a major influence on firms' competitiveness. Research demonstrates that the use of strategic human resources management practices, for example, leads to lower employee turnover which positively affects both firm performance and firm productivity (Becker & Gerhart, 1996; Guthrie, 2001; Huselid, 1995; Koch & McGrath, 1996). However, scholars also argue that whilst the issue is complex, demonstrating good CSR meets instrumental, moral and relational needs of employees thereby leading to higher levels of organizational commitment and, in theory, lower turnover (Aguilera et al., 2007). Similarly, customers develop either positive or negative perceptions of firms through product use, service interactions and expectations based on advertising and word-of-mouth, to name a few (Fornell et al., 1996). CSR is expected to impact customer satisfaction although no research has demonstrated a link. Lastly, reputation had long been discussed as an important intangible asset of firms and is defined as "outsiders' assessments about what the organization is, how well it meets its commitments and conforms to stakeholders' expectations, and how effectively its overall performance fits with its socio-political environment" (Brown & Logsdon, 1999: 169). Although a relationship between CSR and reputation is frequently argued, little empirical research has actually tested the relationship (for a discussion, see Brammer & Pavelin, 2006; Mahon, 2002 and Neville et al., 2005).

THEORY AND HYPOTHESES

CSR generally refers to a set of activities firms engage in to fulfill their part in creating societal welfare (Etzioni, 1988; Fombrun, 1997; Wood, 1991). Much has been written on what constitutes CSR and although many viewpoints exist (Carroll, 1999; Griffin, 2000; Moir, 2001; Rowley & Berman, 2000), Carroll's (1979) conceptualization of the responsibilities of firms has remained a consistently accepted approach, particularly with respect to empirical study. Carroll

(1979) argues that firms have four responsibilities, including: 1) the *economic* responsibility to generate profits, provide jobs and create products that consumers want; 2) the *legal* responsibility to comply by local, state, federal and relevant international laws; 3) the *ethical* responsibility to meet other social expectations, not written as law (e.g., avoiding harm or social injury, respecting people's moral rights, doing what is right, just, fair); and 4) the *discretionary* responsibility to meet additional behaviors and activities that society finds desirable (e.g., contributing resources to various kinds of social or cultural enterprises; providing employee benefits such as training and improved salaries). Firms that demonstrate proactive CSR would not only expect to contribute to the creation of societal welfare, but also to their own success.

Although not without concern over methodological inconsistencies (Griffin, 2000; Rowley & Berman, 2000), research generally demonstrates that CSR is positively associated with firm success; namely, with respect to firm financial performance (De Bakker et al., 2005; Orlitzky et al., 2003). According to Aguilera et al. (2007: 837), such findings “should bring some closure on the long running debate...about whether it is in an organization's financial best interest to engage in CSR.” However, firm success is a multidimensional construct, one that captures measurements well beyond the financial (Greening & Turban, 2000; Koch & Cebula, 1994; Maltz et al., 2003). Of particular interest to this study are employee turnover, customer satisfaction and firm reputation.

CSR and employee turnover

Executives continue to suggest that employees are their most valuable asset and that their ability to retain employees is a hallmark of firm success (PricewaterhouseCoopers, 2002). Indeed, the ability to retain employees not only signals that a given firm is a valued place to work and can elicit positive corporate associations from the public, but several scholars find that retaining

employees has positive consequences on firm performance and productivity (e.g., Becker & Gerhart, 1996; Guthrie, 2001; Huselid, 1995; Koch & McGrath, 1996). Of particular concern to firms then, are the mechanisms and activities that can enable them to lower employee turnover. CSR is argued to be one such activity.

Employee justice perceptions theory (Cropanzano et al., 2001a, 2001b) argues that employees derive general justice perceptions of firms based on the level of fairness demonstrated. Research has shown that in work environments that are perceived to be fair, employee well-being is positively affected, such as in the areas of job satisfaction and stress (Colquitt et al., 2001). Research also shows that work environments that are perceived as fair have positive affects on organizational outcomes as well, such as lower absenteeism and higher levels of employee commitment (Colquitt et al., 2001). On the other hand, work environments that are perceived as unjust lead to lower employee performance and even vengeful behaviors on the part of employees (Ambrose et al., 2002; Aquino et al., 2001; Tripp et al., 2002). CSR, arguably, signals to employees essential information on which to judge the fairness of a firm.

According to instrumental models, individuals have a psychological need for control (Tyler, 1987). This need for control is based on a self-serving concern for justice and from an employee perspective, justice demonstrated by firms (fair or unfair) provides information that can be used to foretell an organization's actions. Aguilera et al. (2007) argue that when firms show concern for both internal and external stakeholders through CSR they demonstrate fairness. Therefore, employees deduce that the firm will be fair to them, which satisfies their need for control. Similarly, Tyler and Lind (1992) argue from a relational model perspective that justice demonstrated by firms signals the quality of relationships between employees and management and that such relationships impact on employees' sense of identity and self-worth. Because CSR entails building relationships with multiple stakeholders and requires collaboration between

employees and management, the expectation is that employees derive a sense of value and belongingness to the organization through CSR activities (Aguilera et al., 2007). Lastly, employees have ethical frameworks which guide decision-making and response (Cropanzano et al., 2003). Because most individuals have basic respect for human dignity and worth, firms that are unfair violate morality-based concerns for justice. More specifically, firms that do not demonstrate behavior that is consistent with employees' moral or ethical frameworks are likely to suffer negative consequences. Given that CSR meets employees' instrumental, relational and moral needs, turnover levels are expected to be impacted. Consequently:

Hypothesis 1: CSR will diminish employee turnover.

CSR and customer satisfaction

Customer satisfaction is a cumulative, global evaluation based on experience with firms over time and is a fundamental indicator of past, current and future performance (Anderson et al., 1994). As such, customer satisfaction has become one of the most essential goals of firms and is an important emphasis of business strategy (Anderson et al., 1997; Dahlsten, 2003; Morgan et al., 2005; Taylor, 2003). To understand customer satisfaction, two aspects of theory are important. The first focuses on equity theory (Oliver, 1997; Oliver & Swan, 1989a, 1989b) and the second focuses on the expectancy-disconfirmation paradigm (Oliver et al., 1997; Rust & Oliver, 1994).

Stemming from social exchange theory (Adams, 1965; Homans, 1961), equity theory focuses on fairness, rightness or deservedness judgments individuals make in reference to what one or others receive (Oliver, 1997). The theory generally suggests that in exchanges if individuals feel equitably treated and their input to the exchange is in balance with the output of the exchange, satisfaction is the result (Goodwin & Ross, 1992; Oliver, 1997). Hence, individuals incur certain costs (inputs) in exchanges for a certain level of output from firms. According to

Bolton and Lemon (1999) and Oliver and Swan (1989a, 1989b), distributive equity is the individual's reaction to these inputs to outputs or fairness. Equity, in turn, affects the individual's overall evaluation of the firm. On the other hand, the expectancy-disconfirmation paradigm postulates that individuals compare exchanges with firms against their prior expectations (Oliver & DeSarbo, 1988; Rust & Oliver, 1994; Tse et al., 1990). Whether the comparison outcomes could be perceived as worse than expected, better than expected or just as expected, will directly drive satisfaction evaluations (Oliver, 1980, 1981). More specifically, individual-level satisfaction is the degree to which perceived performance confirms or disconfirms performance expectations. Accordingly, when performance exceeds expectations, satisfaction increases. When expectations exceed performance delivered, satisfaction decreases. In sum, the expectancy-disconfirmation paradigm predicts that satisfaction should increase with performance and decrease with unmet expectations. With respect to CSR, there a number of ways the construct is expected to improve customer satisfaction.

In a well documented corporate turnaround (Rucci et al., 1997), the American firm, Sears, Roebuck and Company placed customer service at the heart of its corporate strategy. Realizing that offering quality products at affordable prices could be increasingly copied by competing retailers, Sears developed and implemented the 'employee-customer-profit chain' model to gain a competitive advantage (Rucci et al., 1997). The model linked employee actions, customer satisfaction and profitability, and examined how direct and specific effects of improvements in employee actions would improve customer satisfaction, and, ultimately, profitability. After loosing \$4 billion in 1992, the company posted a profit of \$1.5 billion five years later after implementing the model. According to Rucci et al. (1997) and Westbrook (2000), a key dimension of the turnaround at Sears directly involved heavy investments in employees, particularly in training them in the 'art' of responding to and exceeding customer expectations.

Maignan et al. (1999) argue that firms are not required or obligated to offer training; rather, training is a discretionary responsibility that signals a commitment to CSR.

In another example, in the mid-1990s, motor vehicle manufacturer Volvo Cars embarked on a strategy to improve its customer satisfaction. Rather than focus on customer service, Volvo's main emphasis was on improving product quality (Dahlsten, 2003). After a series of quality initiatives leading to new model development and enhanced features across a number of existing models, Volvo was able to consistently lift its customer satisfaction results (Dahlsten, 2003). According to Carroll (1979) and Maignan et al. (1999), delivering quality products that meet customer needs is consistent with CSR, particularly with respect to a firm's economic responsibility.

Lastly, at founding, a core value of Enterprise Rent-A-Car was to deliver high levels of customer satisfaction by being honest and fair and going the extra mile (Taylor, 2003). Although the firm consistently delivered financial results, by the early 1990s, customer satisfaction levels slipped. To address the issue, the firm launched the Enterprise Service Quality index (ESQi) as a means to not only closely measure customer satisfaction, but to use as a diagnostics tool to develop new strategies to address the problem. After launching several initiatives, such as standardized practices in customer service, employee training and reengineering processes, Enterprise Rent-A-Car was able to consistently improve customer satisfaction ratings. However, a key factor in the success of Enterprise Rent-A-Car was re-orientating itself with the core values of honesty and fairness in dealing with customers (Taylor, 2003). The issue of honesty, fairness and integrity is an ethical responsibility of the firm and as such, reflects CSR (Carroll, 1979).

Firms continue to search for ways to improve customer satisfaction. Given that CSR offers response to customers across a number of dimensions, the expectation is that:

Hypothesis 2: CSR is positively associated with customer satisfaction.

CSR and reputation

Reputation indicates that a firm is highly esteemed or well regarded (Weiss et al., 1999). According to Brown and Logsdon (1999: 169), reputation is defined as “outsiders’ assessments about what the organization is, how well it meets its commitments and conforms to stakeholders’ expectations, and how effectively its overall performance fits with its socio-political environment.” Similarly, Whetton and Mackey (2002: 401) define reputation as “a particular type of feedback, received by an organization from its stakeholders, concerning the credibility of the organization’s identity claims.” Thus, reputation is a general attribute of firms and reflects the extent to which “stakeholders see firms as ‘good’ or not ‘bad’” (Roberts & Dowling, 2002: 1078).

From an academic perspective, although the link with firm financial performance is of primary interest (Roberts & Dowling, 2002), reputation is also a measure of success, a dependent variable. Further, several scholars (e.g., Dierickx & Cool, 1989; Srivastava et al., 2001) argue that reputation is a key strategic asset, one that helps firms build and sustain competitive advantage. Given that reputation is a strategic asset of the firm and a measure of firm success, a fundamental question is: how does a firm build a favorable reputation? Marketing scholars have focused particular attention on what firms do to achieve positive reputations. Antecedents include cause-related marketing (Drumwright, 1996; Varadarajan & Menon, 1989), product quality (Brown & Dacin, 1997) and brand advertising (Winters, 1986). Other scholars suggest that reputation is a result of financial performance, management effectiveness or some combination of factors that appeal to a firm’s multiple stakeholders (Fombrun & Shanley, 1990; Tsui, 1984). However, underlying theory suggests that reputation formation can be broadly understood as a

signaling process (Heil & Robertson, 1991; Robertson et al., 1995; Weigelt & Camerer, 1988), one where firms' strategic choices send signals to stakeholders and stakeholders in turn use these signals to form impressions or associations of these firms. CSR is increasingly relevant to strategy and strategic choices (Galbreath, 2007; Porter & Kramer, 2006) and therefore is part of firms' signaling processes. Indeed, according to Galbreath (2007) and Porter and Kramer (2006), today, CSR is becoming a key battleground for differentiation and competitive advantage. As such, CSR is not an afterthought to strategy – something conducted on an ad-hoc basis – but rather is instrumental in the strategy formation process and the strategic choices firms make to address stakeholder needs (Galbreath, 2007; Lewis, 2001). There are two principle means by which CSR is theorized to impact on reputation: substantive actions and symbolic actions.

Substantive actions with respect to CSR are actions that are tangible, measurable and/or reflect visible expenditure of resources (Mahon, 2002). For example, firms in Australia, the US and other industrialized countries seek to differentiate themselves from competitors and bolster reputations through expending resources in support of social causes (Birch, 2002; Cone et al., 2003). In this case, firms are leveraging their discretionary responsibility in reputation building. Similarly, firms also seek to differentiate themselves and strengthen reputations by developing products that appeal to consumers in particular markets by targeting highly visible social issues, for example, by appealing to educated, environmentally aware people in the automobile market with hybrid vehicles (McWilliams & Seigel, 2001; McWilliams et al., 2006). Here, firms capitalize on bolstering reputation by focusing on their economic responsibility.

In other substantive actions, investing in and developing a distinctive resource such as an ethical culture can create a strategic benefit in the form of a good reputation, which can lower transactions costs (Fombrun & Shanley, 1990). Development of such a resource demonstrates strategic attention to a firm's ethical responsibility. Lastly, by advancing the goals of

communities within which they operate, for example, through capital projects, firms build goodwill among stakeholders and this goodwill can be crucial to a firm's reputation in the event of a future corporate crisis (Jones, 1995; Mahon, 2002). Similarly, by not only meeting, but investing resources to exceed environmental laws and regulations, firms can demonstrate outstanding corporate citizenship and further build goodwill among stakeholders, helping to enhance their reputations while demonstrating commitment to legal responsibilities (Hoffman, 2005; Kolk & Pinske, 2005; Lash & Wellington, 2007).

Symbolic actions with respect to CSR are perhaps less obvious and clear to identify. Symbolic actions are actions where little to no resources are committed by firms. By example, Gerber baby foods is a recognized leader in the baby food industry and maintains a highly regarded reputation. At one point in the firm's history, allegations were made that glass was found in its products and posed a serious danger to infants (Nash, 1993). Gerber immediately recalled the product and investigated the problem. The findings suggested that extremely small traces of glass were found in the product but was a result of handling in transit and posed no danger whatsoever. Some time later, similar allegations were made. However, this time Gerber did not recall the product and cited the extensive research and findings of the first study. Customers, the media and other stakeholders found Gerber's argument acceptable, in part, due to its stellar reputation, product quality and the previous recall. Here, Gerber did not expend resources but rather acted in a symbolic fashion, by emphasizing their ethical and moral credibility as a socially responsible company through communicating past actions in crisis situations.

To summarize, CSR activities, regardless of their form, provide visible signals upon which stakeholders infer various characteristics of firms. CSR is, therefore, a key mechanism by which a firm can build its reputation. Hence:

Hypothesis 3: CSR is positively associated with firm reputation.

METHODS

Sample and Data Collection Procedures

A sample of Australian firms was selected for this study. To develop the sample, particular parameters included: 1) only firms with 50 or more employees; 2) only firms three years old or older; and 3) only firms with manufacturing or services classifications. First, only firms with 50 or more employees were included to ensure a minimum operating structure. Further, firms employing less than 50 people were considered less likely to be able to answer questions relating to the constructs used in this study. Second, because of the time-related dimension of reputation and customer satisfaction (Johnson et al., 1995; Mahon, 2002), only firms that had been in business for at least three years were included. Lastly, only those firms classified as operating in either a manufacturing or services industry were included. Other organizations, such as public administration and community services, were excluded due to their lack of relevance to this study. Also, the inclusion of both manufacturing and services was considered necessary to ensure an adequate sample size and generalizability of the results.

To obtain to the sample, firms were randomly selected from the Business Who's Who Australia database provided by Dunn & Bradstreet. For each manufacturing and services industries, 1,500 firms were selected for a total sample size of 3,000. The CEO was the targeted informant for this study as the expectation was that the top leader would be in the best position to appropriately respond to the data needs. Prior to contacting the targeted informant, a survey was developed and a small pilot study completed ($n = 23$) to examine content validity. Based on feedback, relatively minor changes were made and a final survey instrument developed.

The process of administering the final survey and collecting instrument data was two-phased. In the first phase, a number of approaches were utilized. First, a cover letter was developed to describe the objectives of the study, to assure informants of their privacy and confidentiality, and to offer the summary results of the study. Second, the cover letter described the research as being associated with and sponsored by a major university in Australia. Third, informants were assured anonymity. In the second phase, a reminder letter was sent to all firms in the sample frame two weeks after the initial mailing, accompanied with a new cover letter, explaining the objectives of the study, and the importance of each of the informants' responses. If additional surveys were required by the informants, they were subsequently mailed for completion. Lastly, one month after the initial mailing, a second follow up letter was sent requesting that informants complete the survey in order to fulfill the objectives of the study and to broaden participation. Additional surveys were sent when requested. After accounting for undeliverables, the response rate was below the anticipated rate of 15 to 20 percent; specifically, the response rate was 10 percent. However, other studies of CSR have had similar response rates (Maignan & Ferrell, 2001) while studies of top management teams in the Australian context and in other countries also demonstrate response rates similar to this study (e.g., Agle et al., 1999; Devenish & Fisher, 2000; Galbreath & Galvin, 2007; Hall, 1992; Sheridan & Milgate, 2005; Simons et al., 1999). Thus, the response rate appeared to be in an acceptable range.

Measures

CSR. Maignan and her colleagues (Maignan & Ferrell, 2000, 2001; Maignan et al., 1999) have rigorously developed and tested a measurement of CSR, based on Carroll's (1979) conceptualization. Following these studies, the construct consisted of four distinct yet correlated dimensions: 1) economic; 2) legal; 3) ethical; and 4) discretionary. To measure CSR, multi-item

Likert scales were used for each dimension and informants were asked to rate each item, where “1 = strongly disagree” and “5 = strongly agree”. The Appendix displays items for CSR.

Customer satisfaction. According to Johnson and Fornell (1991), customer satisfaction is an abstract construct that describes customers’ total consumption experience with a product or service. Hence, customer satisfaction is not a transient perception, but rather is an overall evaluation of purchase and consumption experiences. Following this logic, for this study, a new scale was developed based on the work of Fornell et al. (1996). The scale contained seven items designed to gauge firms’ perceptions of overall satisfaction of their customers. Informants rated each item on a 5-point scale, where “1 = strongly agree” and “5 = strongly disagree” (Appendix).

Employee turnover. In their studies, Maignan and Ferrell (2001) and Maignan et al. (1999) measured employee commitment as the degree to which employees felt connected and committed to the firm. However, their measurement did not assess actual turnover levels. To assess actual turnover levels, following Huselid (1995) and Guthrie (2001), a single question was used in this study, asking informants to list what the average annual rate of employee turnover was for their firm.

Reputation. A widely used measure of reputation is the *Fortune* Most Admired Company index (Mahon, 2002). However, the *Fortune* index has been widely criticized to the point of some scholars arguing that the measurement should not be used as a proxy for reputation (Baucus, 1995; Fryxell & Wang, 1994; Mahon, 2002). Further, in Australia, no such index exists. Thus, this study incorporated the reputation scale used by Weiss et al. (1999). The items did not assess whether a firm had a reputation for anything specific, but rather based on the unidimensional perspective (Yoon et al., 1993), assessed a firm’s generalized perception of their reputation. The scale contained five items and informants were asked to rate reputation on a 5-point scale, where “1 = strongly agree” and “5 = strongly disagree” (Appendix).

Control variables. Several measures were used as control variables in this study. These included firm size, firm age, industry type and sales revenue. Firm size was measured with a single item, number of full-time employees, which has been used in previous studies on employee turnover and reputation (Brammer & Pavelin, 2006; Guthrie, 2000; Huselid, 1995; Weiss et al., 1999). Firm age was measured with a single item, number of years in business, a measurement used in studies on employee turnover (Guthrie, 2000). Industry type was a categorical variable measuring seven different industries. Because industry affects a firm's competitiveness (Porter, 1980, 1985), a proxy for industry type was included to control for possible effects on all the dependent variables. Sales revenue was also a categorical variable measuring six different revenue ranges. Sales revenue has been used as a control variable in previous studies of CSR and reputation (Fombrun & Shanley, 1990; Maignan & Ferrell, 2001).

ANALYSIS

Means, standard deviations and correlations are presented in Table 1. To assess the psychometric properties of the constructs, EQS Version 6 (Bentler, 2006) was used to conduct confirmatory factor analysis (CFA). With the exception of CSR, customer satisfaction and reputation were assessed as single factorial models. Following previous research (Maignan & Ferrell, 2000, 2001; Maignan et al., 1999) and based on the work of Carroll (1979), the conceptualization of CSR included four dimensions. To assess the constructs, four fit indices

Variable	Mean	SD	1	2	3	4	5	6	7	8
1. Firm size	630.35	1852.61	1.00							
2. Firm age	42.42	40.91	.09	1.00						
3. Industry	4.49	2.89	.13*	-.05	1.00					
4. Sales revenue	3.88	1.36	.41**	.15*	.04	1.00				
5. CSR	4.05	.46	.12*	.06	-.01	.16**	1.00			
6. Employee turnover	12.65	10.18	.12*	-.07	.17	.09	-.14*	1.00		
7. Customer satisfaction	4.09	.54	-.04	-.04	-.08	-.04	.45**	-.22**	1.00	
8. Reputation	4.38	.55	.04	-.03	.02	.05	.49**	-.14*	.62**	1.00

* $p < .05$; ** $p < .01$

Table 1. Descriptives and correlations.

were used: 1) comparative fit index (CFI); 2) goodness-of-fit index (GFI); 3) Root Mean Squared (RMR); and 4) Standardized Root Mean Squared (SRMR). These four indices are widely used as key fit indicators in CFA (Bentler, 1990; Hu & Bentler, 1999). The findings are as follows (Table 2). For the CSR construct, CFI was .94, GFI was .92, RMR was .04 and SRMR was .06. For customer satisfaction, CFI was .97, GFI was .97, RMR was .01 and SRMR was .02. For reputation, CFI was .99, GFI was .99 and RMR and SRMR were both .01. According to the findings, after scale purification (Appendix), all constructs met thresholds for goodness-of-fit indicators in CFA (Bentler, 1990; Hu & Bentler, 1999). To test for statistical significance between the independent and dependent variables, regression analysis was used. For each equation, all variables were entered into a single block. For CSR, the conceptualization used in this study suggests that the multiple dimensions that make up the construct are equally important;

Model/Variable	Mean	S.D.	Internal Consistency	Cronbach's alpha	CFI	GFI	RMR	SRMR
CSR					.94	.92	.04	.06
Economic	3.94	.55	.73	.72				
Legal	4.50	.42	.82	.81				
Ethical	4.25	.59	.83	.79				
Discretionary	3.51	.71	.82	.79				
Customer satisfaction	4.09	.54	.86	.85	.97	.97	.01	.02
Reputation	4.38	.55	.89	.88	.99	.99	.01	.01

Table 2. Results of confirmatory factor analysis.

hence, equal weights were applied to each of them. Accordingly, a firm's CSR level was computed as the simple averages of the sums of the scores of the responses across the dimensions. For customer satisfaction and reputation, the mean score was used.

RESULTS

The results of the regression analysis are present in Table 3. The results indicated that CSR does reduce employee turnover. CSR was significantly and negatively associated with employee turnover ($\beta = -.17$; $t = -2.84$; $p = .005$), which was the expected direction. Thus, hypothesis 1 was supported by the finding. With respect to hypothesis 2, CSR was significantly and positively associated with customer satisfaction, resulting in a beta of .48 ($t = 8.90$; $p = .000$). Given the findings, hypothesis 2 was confirmed. Regarding reputation, CSR was significantly and positively associated with the construct ($\beta = .51$; $t = 9.52$; $p = .000$). Hence, hypothesis 3 was also supported. Lastly, as for the control variables, firm size ($\beta = .11$; $t = 1.61$; $p = .010$) was moderately associated with employee turnover while industry was positively associated with employee turnover ($\beta = .18$; $t = 2.87$; $p = .004$) and negatively associated with customer satisfaction ($\beta = -.09$; $t = -1.61$; $p = .010$). Lastly, sales revenue was negatively associated with customer satisfaction ($\beta = -.11$; $t = -1.83$; $p = .069$).

Independent variables	Dependent variables		
	Employee turnover	Customer satisfaction	Reputation
Firm size	0.11*	-.04	.00
Firm age	-.08	-.03	-.01
Industry	0.18**	-0.09*	.03
Sale revenue	.07	-0.11*	-.06
CSR	-0.17**	0.48***	0.51***
R^2	0.09	0.24	0.26
F	4.69***	16.64***	18.35***

* $p < 0.05$.

** $p < 0.01$.

*** $p < 0.001$.

Table 3. Non-financial benefits of CSR: Overall assessment.

As an additional set of analysis and to extend the research findings, following Maignan and Ferrell (2001), the individual dimensions of CSR were regressed on each of the dependent

variables (Table 4). With respect to employee turnover, both legal CSR ($\beta = -.20$; $t = -2.33$; $p = .020$) and discretionary CSR ($\beta = -.14$; $t = -1.87$; $p = .063$) were significant with a corresponding negative sign. For customer satisfaction, economic CSR ($\beta = .42$; $t = 6.25$; $p = .000$), legal CSR ($\beta = .23$; $t = 3.05$; $p = .003$), and discretionary CSR ($\beta = .14$; $t = 2.15$; $p = .033$) were significant and positive. However, ethical CSR ($\beta = -.14$; $t = -1.77$; $p = .078$) was significantly but negatively associated with customer satisfaction. As for reputation, economic CSR ($\beta = .33$; $t = 4.88$; $p = .000$), legal CSR ($\beta = .21$; $t = 2.85$; $p = .005$) and discretionary CSR ($\beta = .14$; $t = 2.20$; $p = .029$) were all significantly and positively associated with the construct.

Independent variables	Dependent variables		
	Employee turnover	Customer satisfaction	Reputation
Firm size	0.11*	-.02	.02
Firm age	-.09	-.04	-.02
Industry	0.18**	.01	.08
Sale revenue	.07	-0.12*	-.06
Economic CSR	.04	0.42***	0.33***
Legal CSR	-0.20*	0.23**	0.21**
Ethical CSR	.09	-0.14*	-.02
Discretionary CSR	-0.14*	0.14*	0.14*
R^2	0.11	0.31	0.29
F	3.65***	14.89***	13.51***

* $p < 0.05$.

** $p < 0.01$.

*** $p < 0.001$.

Table 4. Non-financial benefits of CSR: Assessment by individual component.

DISCUSSION

Firm success is multidimensional and far more complex than a single variable such as financial performance (Greening & Turban, 2000; Kaplan & Norton, 1993; Koch & Cebula 1994; Maltz et al., 2003). As such, firms attempt to create success by engaging in a variety of activities.

To extend research in the CSR stream, this study explored benefits of engaging in CSR that are not financial in nature.

The findings suggest that firm success is impacted by CSR. Specifically, all three of the hypotheses were supported by the data in this study. As a result, the study offers strong support for scholars who have theorized that CSR is a value creating activity important to firms beyond pure financial benefits (Aguilera et al., 2007; Neville et al., 2005). For example, Aguilera et al. (2007) suggest that meeting employees' instrumental, relational and moral needs through CSR will have the effect of lowering turnover rates. The results of this study confirmed that CSR reduces employee turnover. On the other hand, customer satisfaction is a cumulative, global evaluation of product or service use based on experience with firms over time and is a fundamental indicator of past, current and future performance (Anderson et al., 1994). This paper argued that, based on equity theory (Oliver, 1997; Oliver & Swan, 1989a, 1989b) and the expectancy-disconfirmation paradigm (Oliver et al., 1997; Rust & Oliver, 1994), firms can improve their product or service evaluation levels with customers by demonstrating CSR. The results indicated that CSR is linked with customer satisfaction; thus, given that customer satisfaction is a key focus of corporate strategy (Homburg et al., 2005), CSR should be viewed as important to firms. Lastly, Neville et al., (2005) argue that reputation is the overall evaluation received by an organization from its stakeholders concerning the credibility of the organization's identity claims. The case was made in this paper, based on signaling theory (Heil & Robertson, 1991; Robertson et al., 1995; Weigelt & Camerer, 1988) that firms use CSR to send signals to stakeholders in order to generate positive impressions or associations which, in turn, affects reputation. The data from this research confirmed that CSR is linked to reputation.

CONCLUSION AND LIMITATIONS

Corporate social responsibility has long been a controversial topic in discussions on business firms, mainly with respect to diverting corporate attention – and capital – from maximizing shareholder value. However, recent debate has seen some of the world’s leading strategy scholars acknowledge the importance of CSR to firm competitiveness (e.g., Mackey et al., 2007; Porter & Kramer, 2006). To legitimize the field, empirical research has mainly concentrated on testing the relationship between CSR and firm financial performance (Aguilera et al., 2007; Margolis & Walsh, 2003; Rowley & Berman, 2000). While studies of the CSR-performance relationship are vast, a small but growing body of scholars is examining relationships beyond the financial. For example, evidence suggests that CSR is an important driver of customer loyalty (Maignan et al., 1999) and employee commitment (Maignan & Ferrell, 2001; Maignan et al., 1999) while also important to attracting prospective employees (Greening & Turban, 2000; Turban & Greening, 1997). To add to the research stream, this study explored the relationship between CSR and employee turnover, customer satisfaction and reputation. The findings are provocative and suggest that CSR is linked to all three dimensions. Thus, extending previous research, this paper demonstrates that CSR is important to firm success; namely, with respect to helping improve non-financial indicators of success.

However, there are some limitations to this study. First, as with much data used in organizational science, the data are cross-sectional. As a result, the research limits the degree to which employee turnover, customer satisfaction and reputation are tracked over time, and to what extent changes in CSR affect these variables over time. Clearly, longitudinal research is needed to develop richer insight. Second, all of the data were self-reported by the participating firms. While CEOs are expected to be in a good position to assess variables such as CSR, employee turnover, customer satisfaction and reputation for their own firms and also in the context of

competitors, common method bias is a concern. To address the concern, as prescribed by Podsakoff et al. (2003), a Harman's *ex post* one-factor test was conducted on all the variables measured in the survey, and the results revealed that a single factor solution did not emerge, nor did any factor account for a majority of the variance. Hence, there was unlikely to be any common method bias. Further, no evidence was found in terms of firm characteristics for the respondents versus the non-respondents, which suggests that response bias was likely not present. Lastly, the generalizability of the study is limited by the sampling frame. While the firms sampled do represent a wide range of organizational industries and sizes, they are limited to the Australian context. Future studies should explore the degree to which CSR impacts on non-financial benefits such as employee turnover, customer satisfaction and reputation across countries.

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APPENDIX

Corporate Social Responsibility^a

Economic

1. Our business has a procedure in place to respond to every customer complaint.
2. We continually improve the quality of our products.
3. We use customer satisfaction as an indicator of our business performance.^b
4. We have been successful at maximizing our profits.
5. We strive to lower our operating costs.
6. We closely monitor employees' productivity.
7. Top management establishes long-term strategies for our business.^b

Legal

1. Managers are informed about relevant environmental laws.
2. All our products meet legal standards.
3. Our contractual obligations are always honored.
4. The managers of this organization try to comply with the law.
5. Our company seeks to comply with all laws regarding hiring and employee benefits.^b
6. We have programs that encourage diversity of our workforce (in terms of age, gender, or race).^b
7. Internal policies prevent discrimination in employees' compensation and promotion.^b

Ethical

1. Our business has a comprehensive code of conduct.
2. Members of our organization follow professional standards.^b
3. Top managers monitor the potential negative impacts of our activities on our community.
4. We are recognized as a trustworthy company.
5. Fairness toward coworkers and business partners is an integral part of our employee evaluation process.
6. A confidential procedure is in place for employees to report any misconduct at work (such as stealing or sexual harassment).
7. Our salespersons and employees are required to provide full and accurate information to all customers.

Discretionary

1. The salaries offered by our company are higher than industry averages.
2. Our business supports employees who acquire additional education.^b
3. Our business encourages employees to join civic organizations that support our community.
4. Flexible company policies enable employees to better coordinate work and personal life.
5. Our business gives adequate contributions to charities.
6. A program is in place to reduce the amount of energy and materials wasted in our business.
7. We encourage partnerships with local businesses and schools.^b
8. Our business supports local sports and cultural activities.

Customer Satisfaction^a

1. Compared to competitors, our customers find that our products/services are much better.
2. Our customers are very satisfied with the products/services we offer.
3. Our customers are very satisfied with the value for price of our products/services.^b
4. Our customers find that the products/services we offer exceed their expectations.^b
5. The likelihood that our customers will recommend our products/services to others is high.
6. Our customers are very satisfied with the quality of our products/services.
7. The ability to achieve high levels of customer satisfaction is a major strength of our firm.

Reputation^a

1. Our firm is viewed by customers as one that is successful.
2. We are seen by customers as being a very professional organization.
3. Customers view our firm as one that is stable.
4. Our firm's reputation with customers is highly regarded.
5. Our firm is viewed as well-established by customers.

a. 5-point scale ranging from *strongly disagree* to *strongly agree*.

b. Item eliminated based on refinement procedure.