

# The effect of corporate social responsibility on operational and quality performance

*Muhammad Shakeel Sadiq Jajja (ssj@lums.edu.pk)  
Assistant Professor, Suleman Dawood School of Business,  
Lahore University of Management Sciences, Lahore, Pakistan*

*Muhammed Asif  
Assistant Professor, College of Business Administration  
Prince Sultan University, Riyadh, Saudi Arabia*

*Frank Montabon  
Associate Professor, Iowa State University College of Business,  
Iowa State University, Iowa, USA*

*Kamran Ali Chatha  
Associate Professor, Suleman Dawood School of Business,  
Lahore University of Management Sciences, Lahore, Pakistan*

## Abstract

This paper uses social exchange theory to argue that organizational citizenship behavior acts a mediator in the relationship between socially responsible behavior and performance. The paper used structural equation modeling and data from apparel manufacturers from Pakistan. The results provide partial support to the hypothesized model. These findings extend the discussion of relationship between social responsibility initiatives and firm performance. Also, the paper provides useful managerial insights.

**Keywords:** Social Responsibility, Firm Performance, Organizational Citizenship Behavior, Empirical Research, Developing Country

## Introduction

Corporate social responsibility (CSR) is a well-established concept in business research. Firms and supply chains choose to engage in CSR for many reasons, but an anticipated improvement to their performance is both a very common motivation and a very strong one. There has been a large amount of research that has investigated the link between CSR and

various measures of firm or supply chain performance (Carter and Jennings, 2002; Mackey et al., 2007; Rao and Holt, 2005). Typically, this research investigates the link between indicators of CSR and changes in some measure of performance, drawing conclusions from this correlation. However, while such research often speculates on “how” or “why” of this relationship, typically this relationship is treated as a “black box” by most research models. That is, the research does not investigate the mechanisms behind this relationship. We therefore propose to investigate one possible mechanism.

Firms and supply chains can demonstrate their commitment and capabilities to CSR in many ways (Turker, 2009). In this study, we use the adoption of a CSR standard as the measure of a firm’s CSR commitment. As with CSR literature in general, research that examines how adopting a CSR standard affect performance typically does so in the afore-mentioned “black box” way (Loureiro et al., 2012; Mitra and Datta, 2014). In this paper we seek to explain a mechanism through which CSR may impact organizational performance.

## **Theory**

We examine organizational citizenship behavior (OCB) as a possible mechanism to explain why adopting a CSR standard leads to better firm performance. OCB describes behavior that is discretionary but not officially part of a worker’s job responsibilities, “that in the aggregate promotes the effective functioning of the organization” (Organ, 1988, p. 4). Thus, if OCBs exist in a firm, they should contribute to a higher level of firm performance. OCB is a well-established construct in the management literature and recently has been extended to recognize environmentally focused behaviors (Boiral, 2009; Boiral and Paillé, 2012; Cantor et al., 2012). This extension of OCB into environmentally focused behaviors indicates that OCB could also be extended into CSR research. In this paper, we argue that adoption of a CSR standard is a trigger for an increase in OCB. Further, we argue that the explanation for why this occurs is social exchange theory (Cropanzano and Mitchell, 2005).

We include two different types of CSR standards. One type we call public standards. The various ISO standards are perhaps the most well-known examples. These standards are open to anyone and in the case of the ISO standards, finding detailed information about them is relatively easy. Private standards are specific to a buyer. While they may be based on a public standards, a key difference that they are administered by the buyer. Public standards can be viewed as voluntary (Prakash and Potoski, 2006), though there are situations where buyers require them (Stigzelius and Mark-Herbert, 2009). Private standards are almost always mandatory for the seller if they want to do business with the buyer that administers such a standard.

The previous literature on OCBs in an environmental context primarily examined if such OCBs would increase under certain conditions. The literature is much quieter on the question of whether or not OCBs affect firm performance. In other words, OCBs are usually the

dependent variable in much of the research that uses the concept. Drawing from social exchange theory we propose that OCB is a possible mechanism to explain how CSR improves firm performance.

## **Method and Results**

This paper uses data from 164 suppliers of international brands in a 'Global South' country for testing the hypotheses using structural equation modeling. The results indicate that both types of standards have a positive impact on organizational citizenship behavior which in turn has a positive impact on operational and quality performance though the impact of private standards on organizational citizenship received weak support. Further, organizational citizenship behavior mediates the relationship between adoption of social responsibility standards and organizational performance though the mediation effect of organizational citizenship behavior for private standards received weak support.

## **Conclusion**

The findings of this research extend the discussion of mediation mechanisms in the relationship between social responsibility initiatives and firm performance. This research informs the practitioners that social responsibility initiatives instigate deep-rooted changes in organizational fabric promoting social friendly behaviors that in turn impact firm performance.

## **References**

- Carter, C.R., Jennings, M.M. (2002) "Social responsibility and supply chain relationships", *Transportation Research Part E: Logistics and Transportation Review*, 38(1), 37-52.
- Loureiro, S.M.C., Dias Sardinha, I.M., Reijnders, L. (2012) "The effect of corporate social responsibility on consumer satisfaction and perceived value: The case of the automobile industry sector in portugal", *Journal of Cleaner Production*, 37, 172-178.
- Mackey, A., Mackey, T.B., Barney, J.B. (2007) "Corporate social responsibility and firm performance: Investor preferences and corporate strategies", *Academy of Management Review*, 32(3), 817-835.
- Mitra, S., Datta, P.P. (2014) "Adoption of green supply chain management practices and their impact on performance: An exploratory study of indian manufacturing firms", *International Journal of Production Research*, 52(7), 2085-2107.
- Rao, P., Holt, D. (2005) "Do green supply chains lead to competitiveness and economic performance?", *International Journal of Operations & Production Management*, 25(9), 898-916.

Stigzelius, I., Mark-Herbert, C. (2009) "Tailoring corporate responsibility to suppliers: Managing sa8000 in indian garment manufacturing", *Scandinavian Journal of Management*, 25(1), 46-56.

Turker, D. (2009) "Measuring corporate social responsibility: A scale development study", *Journal of Business Ethics*, 85(4), 411-427.