6

CSR and Corporate Performance with Special Reference to the Middle East

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Abstract This chapter addresses the presumed link between corporate social responsibility (CSR) and corporate performance in emerging economies with a specific focus on the Middle East. The chapter draws on a multiyear survey of the Dubai business community to highlight the adoption of CSR in the Middle East and examine the association between CSR practices and various organizational performances. The results support the business case for CSR in the Middle East.

Keywords CSR • Middle East • Organizational performance • CSR practices • Survey

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Introduction and Background

A large body of research provides evidence to suggest that corporate social responsibility (CSR) influences corporate performance positively (Tang et al. 2012; Story and Neves 2015; McWilliams and Siegel 2000; Waddock and Graves 1997), but so far, only few studies in emerging markets demonstrated that CSR may have a similar effect in emerging markets contexts (Brik et al. 2011; Gao 2009; Bihari and Pradhan, 2011; Muller and Kolk 2009; Cheung et al. 2010). The lack of research focus on the strategic value of CSR for the last three decades is understandable in the context of emerging markets. The question of why firms in emerging markets adopt CSR practices has not been fully addressed. Emerging markets have been lacking appropriate institutions and incentives to coerce firms to conform to market principles, fair competitive environment, and have suffered from prevalent deficient market information and corporate transparency. Drivers that pushed firms in developed markets to adopt CSR practices such as community pressure, governments, non-governmental organizations (NGOs), and customers are still weak in emerging markets context. As a result, most firms in emerging markets, understandably perhaps, opted to disconnect from stakeholders because they could not see economic value in doing so. Conventionally, CSR was understood as a philanthropic activity to demonstrate the act of giving back to society. At the microlevel, the subsequent implication is that firms lacked long-term structural commitment to their markets either, which in turn reenforced the existing awkward institutional environment to definitely determine a manager's perceptions, and as a result, managers were not motivated to consider strategic CSR and envisage its possible impact on performance.

Against this background, a first cross-sectional survey of 280 firms operating in Dubai, United Arab Emirates (UAE), was conducted (Rettab et al. 2009; Brik et al. 2011) and, perhaps surprisingly, has found a positive impact of CSR on all three measures of organizational performance, namely, financial performance, employee commitment, and corporate reputation. More surprising, the study has shown that CSR practice in Dubai has gone beyond philanthropy and extended its scope to include strategic CSR components. This fact reinforced the belief that recently, CSR should have definitively evolved in the Middle East and many other emerging markets with a demonstrated positive impact on organizational performance, thereby challenging the old existing assumption that weak institutional settings determine the nature and scope of CSR as an ad hoc and trivial practice in emerging markets and thereby has no impact whatsoever and whenever on organizational performance.

Following this study, as shown in Fig. 6.1, interest in CSR applications by firms in the UAE increased significantly—from 33% in 2008 to over 50% in 2014.

Hand in hand with increasing firm's interests in CSR, the academic interest in analyzing the underlying mechanisms determining the causal relationship between CSR and organizational performance in emerging markets took off steadily too.

The lack of research on strategic value of CSR in emerging markets has contributed to the inconclusiveness of findings about the impact of CSR on performance in emerging markets. The bulk of research focuses mainly on philanthropy, corporate citizenship, corporate irresponsibility, and motives for CSR in these countries. This has kept the scope of the above studies and CSR practice very narrow and the relationship between CSR and organizational performance questionable.

This chapter aims at achieving three goals. First, it discusses in depth why managers broadly assumed lack of institutional incentives and ignored strategic CSR and the value of CSR for potential corporate

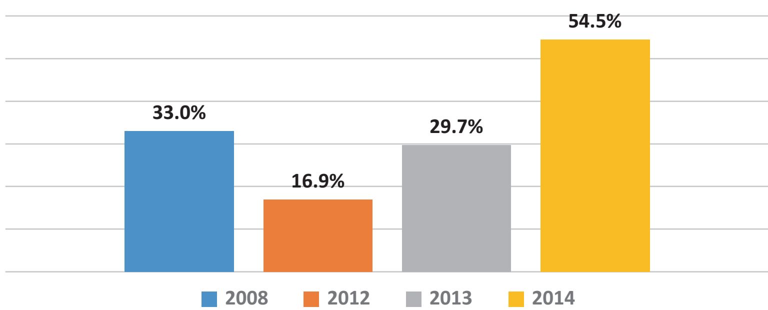

Fig. 6.1 Percentage of firms adopting CSR strategy/policy in Dubai/UAE, 2008–2014. (Source: Rettab 2014)

performance in the Middle East and its positive impact on organizational performance. Second, the chapter attempts to link CSR research and debate in the Middle East to broader literature, to establish a shared CSR conceptualization framework. Finally, it helps drive CSR research in the region in a way to drive corporate strategies in practice to make CSR one of the firm's competitive capabilities. These goals will achieve two objectives. First, it draws more attention to the wider business environment, the institutional settings, and market incentives in the Middle East, which shape CSR practices regardless of firm- and individual-level factors, and stresses the role of market incentives in enticing, or not as the case may be, firms to engage in CSR activities.

Second, it highlights the high relevance of CSR in emerging economies, particularly in the case of fast developing economies, such as the Middle East, given the immense drive of the economic growth for managers in pursuing profit maximization, thereby tempting to abuse the general environment and jeopardizing the long sought-after sustainable development in these economies.

In other words, due to the high degree of laissez-faire in some of these economies, firms might tend to acquire market power and resort to unethical practices in order to achieve financial rewards abruptly. CSR is then the best strategy to manage the risk of turning the competitive advantage and economic boom of a relaxed and deregulated business environment into a long-term challenge.

In the next sections, we discuss the association between CSR and organizational performance and pay significant attention to the association between CSR and three specific aspects of organizational performance, namely, financial performance, employee commitment, and corporate reputation to delineate the scope of future research in this field.

CSR: A Gift or a Curse?

A significant body of research highlights the positive relationship between CSR and organizational performance (Griffin and Mahon 1997; Swanson 1999; Schuler and Cording 2006; Husted and Allen 2007; Moneva et al. 2007) but not convincingly reaching consensus on whether or not and how does CSR affect organizational performance (Margolis and Walsh 2001, 2003; Revelli and Viviani 2015; Mellahi et al. 2016). Discrepancies in the CSR research findings are, at least in part, the result of four reasons. First, the utilization of different theoretical frameworks underpinned by different theories, and thereby different indicators of organizational performance, tends to produce conflicting results (see also Carroll 1991; Griffin and Mahon 1997; Waddock and Graves 1997). For instance, studies using institutional theory look for legitimacy whereas studies using resource-based view may focus on organizational performance indicators such as profitability or market share. Mellahi et al. (2016) reported that CSR–performance association is influenced by the theory used to examine the relationship. They reported that stronger positive association by studies using Resource Based View (RBV), instructional, and stakeholder theories in contrast to only about 50% of the studies reported such association when scholars used resource dependence and agency theories.

Second, utilizing a single or too narrow concept of CSR might lead to overlooking other relevant aspects of CSR performance (see also Egri et al. 2004). For example, strictly relying on financial performance ignores the full impact of CSR on the firm's overall performance on other relevant indicators such as employees' and customers' satisfaction and corporate reputation (Husted and Allen 2007).

Third, incongruities of perceptions and attitudes of managers toward CSR depend on the firm's environmental settings in regions and countries, which might strongly influence CSR outcomes and business performance in general. Business system theory, for example, holds that countries have different business systems (Whitley 1992), which might affect manager's behavior.

Fourth, the lack of a sound CSR theoretical concept and definition especially in emerging economies and the complexity of operationalization of research and thereby the data limitations frequently result in a failure to capture the direct and indirect outcomes in a well-defined structure of causalities. A well-known limitation is the usually, unobservable CSR contribution to short-term financial performance, due to the small size of CSR inputs as catalyst to generate revenues and profits relative to other inputs.

Subsequently, many studies reported a negative relationship between CSR and firm's performance (Vance 1975), while others reported a positive relationship (Moskowitz 1972; Spencer and Taylor 1987; Abott and Monsen 1979; Bragdon and Marlin 1979; Graves and Waddock 1994; Waddock and Graves 1997). Following these limitations, it is plausible that future research efforts will face the same challenge unless the problem definition is improved and properly operationalized in a more systematic and standardized way.

However, although previous literature is not very convincing when it comes to the impact of CSR on performance, over two decades ago Pava and Krausz's (1995) comprehensive review of literature found that, overall, firms which were perceived to meet their social responsibility objectives, as a result, have either outperformed or performed equally to firms with no CSR (see also Orlitzky et al. 2003). Meaning that overall, strategic CSR when properly applied and measured is not a curse and could not be detrimental to organizational performance.

Strategic CSR in Emerging Markets Context

Strategic CSR could then be understood as investment not a cost to firms. CSR is a strategic business model, seeking to boost the business strategy through stakeholder engagement and sustainability. Strategic CSR should be aligned with a firm's long-term business strategy. It helps govern the goals of the company, the approach, and the process of optimization of the allocation of scarce resources to satisfy the needs of stakeholders and create long-term costumer value. It is a social contract mandating the firm to manage factors of production efficiently in order to maximize the social value at the workplace, marketplace, the community, and the environment, each of which consists of essential strategic areas sought after by the firm according to its materiality to establish the firm's capabilities and competitive edge for the long term.

In fast-growing emerging markets such as the Middle East, industrial policies to diversify the economy, however, when managed inappropriately, may lead to higher social inequality, poor labor practices by firms, and higher risks for the environment.

The Gulf Cooperation Council (GCC) region, for example, has sustained a period of rapid growth during the last three decades, moving from an obscure semi-nomadic economy to a global economic player which has recently built up significant competitive advantages mainly due to three main factors. The first is the economic ambition to become a global player, the second is the aggressive open market strategy to attract foreign direct investment, and the third is the growing population.

Subsequently, the exceptional economic growth recorded for the previous two decades generated by extensive human and capital inputs has resulted in significant incentives for opportunistic behavior. These practices ranged from mistreatment of workers by unscrupulous employers to dishonesty with customers and harm to the environment.

Scholars argue on one hand that the weak enforcement of laws and regulations gives the impression that firms can get away with socially irresponsible actions (Mellahi 2007). Although the government introduced a number of laws to regulate firms' conduct, much of it hinges on the institutional capacity to monitor and enforce regulations (North 1990).

On the other hand, a number of scholars argued that while sanctions enforced through regulations may discourage firms' irresponsible behavior, others argue that adherence to voluntary socially responsible behavior, inspired by supportive institutions such as chambers of commerce, business, and industrial associations, is capable of mobilizing social opinion, shifting consumer behavior, and enticing firms to subscribe to CSR (see also Gala-Skiewicz 1991; Campbell 2006).

Notwithstanding the fact that despite the tendency of political institutions in most emerging economies such as China, India, and the UAE to promote CSR awareness and practices in order to mitigate harmful consequences of fast-growing economic activity such as pollution, consumer, and labor abuse, unfortunately, CSR remains a low priority for many firms compared to developed countries. This situation which is enforced by the absence of CSR awareness of firms, makes frail nongovernmental institutions and social associations capable of raising social expectations that exert pressure on firms. In the next section, we illuminate previous research contradictory findings about the impact of CSR on financial performance as related to the aforementioned limitations of scope and definitions of CSR.

CSR and Financial Performance in Emerging Economies

Financial performance is one of the most studied indicators of the strategic value of CSR. Margolis and Walsh's (2001) meta-analysis found that 55% of the 160 studies examined identified a positive relationship between CSR and financial performance, 22% reported no relationship, 18% found a mixed relationship, and 4% a negative relationship. This is evidence enough to admit the impact of CSR on performance. Furthermore, Orlitzky et al. (2003) conducted another meta-analysis and found that it is widely accepted that CSR improves the firm's financial performance. Finally, Aguilera et al. (2007) called for closure of this debate arguing that there is an overwhelming evidence of a positive and significant association between CSR and performance. A recent meta-analysis of the relationship by Busch and Friede (2018) found the same results.

Furthermore, a number of assumptions have been debated as to why CSR has a positive impact on financial performance (see also Allouche and Laroche 2006; Orlitzky et al. 2003; Busch and Friede 2018). It is being stated that the way a firm satisfies its stakeholders' expectations and communicates CSR activities to them enhances the effect of CSR on financial performance. Lankoski (2009) argues that communication with stakeholders and visibility of the firm's CSR initiatives is very important. Similarly, Mellahi et al. (2016) argue that "for firms wishing to generate goodwill and inhibit stakeholder skepticism, they need to be credited for their initiatives". Brammer and Millington (2008) argue that CSR tends to have a positive impact on performance when it addresses issues salient to key stakeholders. Lev, Petrovits, and Radhakrishnan (2010, p. 198) reported similar findings noting that firms are able to justify CSR initiatives "if they can explain how corporate giving will enhance customer satisfaction and, in turn, sales growth". Therefore, one could argue that in emerging economies, the link between CSR and financial performance of the firm might have been weakened partly because stakeholders are insufficiently informed to shape their expectations properly and partly because of the missing feedback channels on the CSR efforts of the firm.

The availability and diversity of information channels to disseminate information on the firm's CSR initiatives and to gauge for stakeholders' expectations as well as preferences of stakeholders shape stakeholders' attitudes toward CSR efforts (see also Schuler and Cording 2006). Hartman et al. (2007) argued that notwithstanding the motivation for the engagement, firms must ultimately communicate it to stakeholders. Overall, firms in emerging economies do not appreciate the critical importance of communicating their CSR activities to stakeholders (Foo 2007; Wright et al. 2003).

In the case of Dubai, our extensive research over the years shows that the following factors are the main contributors to ineffective stakeholder's engagement:

- failure of CSR communication tools and reporting,
- failure to integrate the stakeholder's expectations management strategically in the business strategy,
- firms' failure to think materiality when considering the expectations of stakeholders vis-à-vis organizational priorities due to monopolistic position in the UAE market,
- complexity of CSR communication due to diversity of the stakeholder's background, experiences, and expectations, and
- inability to build long-term relationships and trust with stakeholders because of high turnover of managers and employees resulting from a high turnover in the labor market.

These above factors sometimes oppress stakeholders' expectations and subsequently result in diffidence of firms to engage in CSR activities as they perceive it to have little benefit on profit. Furthermore, because of the lack of institutionalized communication platforms to disseminate information about CSR activities, even when applied, CSR efforts often go unnoticed by stakeholders and the market at large, with a subsequent negligible impact on performance.

It is important to note here that we are not in agreement with opponents of CSR or those who make the case against CSR because of problems with CSR communication and/or misalignment with salient stakeholders. We advocate that stakeholders are unlikely to punish firms for their CSR activities at least for two key reasons. First, when stakeholders are not fully aware of firms' CSR activities, CSR is not being rewarded but also not punished.

Second, in an era of economic boom in emerging markets, where markets allow for exceptional financial performance due to "laissez-faire" institutional environment, firms should at least tend to share market value with consumers to sustain an acceptable consumption level and create positive externalities for the long term.

CSR and Employee Commitment in Emerging Economies

In addition to financial performance, a key performance indicator of CSR performance is employee commitment. It refers to "the extent to which a business unit's employees are fond of the organization, see their future tied to that of the organization, and are willing to make personal sacrifices for the business unit" (Jaworski and Kohli 1993, p. 60). CSR impacts employee commitment as a component of organizational performance; although heavily discussed (Shen and Benson 2016; Suh 2016; Hur et al. 2016; Lee and Yoon 2018; Opoku-Dakwa et al. 2018), there is a near consensus on the positive association between CSR practices and various human resource-related outcomes.

Aguilera et al. (2007) noted that employees make judgments about their employer's CSR efforts based on their observations of the firm's CSR actions, outcomes of the CSR actions, and the handling of the implementation process. The authors posit that "socially responsible or irresponsible acts are of serious consequences to employees" (p. 843). A number of studies have explored the link between CSR and employee commitment (Albinger and Freeman 2000; Backhaus et al. 2002; Greening and Turban 2000; Maignan et al. 1999; Peterson 2004; Turban and Greening 1997; Shen and Benson 2016; Suh 2016; Hur et al. 2016;

Lee and Yoon 2018; Opoku-Dakwa et al. 2018) and reached broadly similar conclusions. Overall, past research shows that a firm's social responsibility actions matter to its employees (Albinger and Freeman 2000; Backhaus et al. 2002; Greening and Turban 2000; Peterson 2004; Turban and Greening 1997) and tend to have a positive impact on employees' commitment. Branco and Rodrigues (2006) reported that firms perceived to have a strong social responsibility image often have an increased ability to attract better job applicants, retain them once hired, and maintain high employee morale. Similarly, Maignan et al. (1999) posited that firms that engage in CSR activities are likely to enjoy enhanced levels of employee commitment for two main reasons: (1) they are dedicated to ensuring the quality of workplace experiences and (2) they address social issues—such as the protection of the environment or the welfare of the community—that are of concern to society in general and therefore also to employees.

The above discussion is in line with the extensive research on employees' justice perceptions, which posit that employees' perceptions of their firms' CSR activities shape their perceptions of the firm (Rupp et al. 2006; Lee and Yoon 2018; Opoku-Dakwa et al. 2018). Furthermore, firms that engage in CSR tend to extend their CSR efforts internally to their employees through fair and socially responsible practices. Thus, it is reasonable to expect firms that engage in CSR activities foster a positive relationship with their employees and are as a result more likely to earn employees' commitment than their counterparts that do not engage in CSR initiatives. In addition, contrary to the presumed link between CSR activities and drivers of financial performance, CSR activities are easily observed by employees and as a result may make an instant favorable impression on them that could boost their morale and their commitment to the firm. Given that a number of firms in emerging economies take advantage of a weak institutional environment to develop exploitative working conditions where workers are poorly paid and work excessive hours in hazardous working conditions (Budhwar and Mellahi 2007), CSR activities benefiting employees make a significant difference and are highly appreciated by employees (Dögl and Holtbrügge 2014).

CSR and Corporate Reputation in Emerging Economies

Corporate reputation contributes to a firm's competitive advantage (Barney 1991; Deephouse 2000; Fombrun and Shanley 1990; Roberts and Dowling 2002; Shamsie 2003). This is because "the development of a good reputation takes considerable time and depends on a firm making stable and consistent investments over time" (Roberts and Dowling 2002, p. 1091). Indeed, corporate reputation is enhanced or destroyed by firms' decisions to engage or disengage in CSR activities. Bhattacharya and Sen (2003) pointed out that CSR "builds a reservoir of goodwill that firms can draw upon in times of crisis". Similarly, McWilliams and Siegel (2001, p. 120) reported that CSR "creates a reputation that a firm is reliable and honest".

However, the link between CSR and corporate reputation in emerging economies is not straightforward. Contrary to employee commitment where employees are directly observing their firms' CSR conduct, the impact of CSR on corporate reputation is mostly of external stakeholders' concern and is shaped by the long-standing commitment and behavior of the firm toward stakeholders and the consistent involvement of and communication to them about its CSR goals and objectives. Branco and Rodrigues (2006) noted that when firms are able to demonstrate, by communicating effectively with a wide range of stakeholders, that they operate responsibly, they can build a positive reputation. Whereas failing to do so can be a source of risk to their reputation.

Unfortunately, effective communication tools were not always available for firms in many emerging markets. The lack of familiarity with communicating internal activities such as CSR initiatives to stakeholders impedes firms' ability to inform their stakeholders and explains the incapability to influence stakeholder perceptions in order to boost corporate reputation. Generally speaking, CSR practice is not yet sufficiently recognized by the media which remains a serious hurdle for generating public goodwill that could ultimately translate into an attractive corporate reputation.

Conclusion

This chapter discusses the association between CSR and organizational performance with special reference to emerging markets in general and Dubai in particular. We sought to provide guidance, on the one hand, to future research agenda by putting forward a standard definition for CSR away from philanthropy but strictly focusing on stakeholders' needs relating to workplace, marketplace, community, the environment, and the creation of long-term customer value being the ultimate outcome.

On the other hand, we focus more on three core performance areas, namely, the financial, the employee's commitment, and organizational reputation, which can be given several designs drawing on different approaches and disciplines to close the gap there in between, meanwhile encouraging a multidisciplinary approach. This will help to reach consistent measurement and constructive conclusions.

This chapter concludes that CSR has a significant and positive impact on all three pillars of performance, thereby refuting the belief that due to the absence of strong institutional support, and the predominance of ineffectual laws, firms in emerging economies do not capture full benefits from CSR; instead, they are tempted to resort to exploitative practices of customers, exploitation of human resource, and the physical environment. The chapter explained that the above bias is mainly an unintended result of incorrect measurement being distorted by factors such as philanthropy, absence of stakeholder's engagement and of communication, and reporting CSR practices.

Furthermore, this chapter argues that the *impact* of CSR on organizational performance in emerging economies is similar to that in Western developed economies. At the core, the differences in the impact on performance outcomes, when recorded between developed and emerging economies, are attributable chiefly to the differences in the respective regulatory/institutional systems. However, this (dis)similarity in impact will persist, up to the point where the regulatory systems, overall, will approach a standard level that is fully supported by stakeholders and a communication and reporting system is being put in place.

Therefore, on the basis of these results, scholars should perhaps put less emphasis on the institutional differences between developed and emerging economies when it comes to CSR activities but more on definitions and a standard measurement. For practitioners of CSR, this chapter is backbone for their confidence. It will also intensify the practice of CSR as a strategy in the region.

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