Eskişehir Osmangazi Üniversitesi İİBF Dergisi
Ağustos 2019, C. 14 S. 2, 479 – 490.

Başvuru : 23.01.2019
Kabul : 26.07.2019

Mediating Effect of Corporate Social Responsibility in the Relationship between Innovation and Firm Value

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Kurumsal Sosyal Sorumluluğun İnovasyon ve Firma Değeri Arasındaki İlişkide Aracılık Etkisi

Öz

Kurumsal sosyal sorumluluk (KSS), giderek iş uygulamalarının ayrılmaz bir parçası haline gelmektedir. Bu çalışma, KSS uygulamaları ile firma değeri arasındaki ilişkiyi iki temel değişken ekleyerek açıklamayı amaçlamaktadır: inovasyona yatırım ve pazarlamaya yatırım. Ampirik çalışmanın örneklemi Borsa İstanbul / Türkiye'de kayıtlı imalat firmalarından oluşmaktadır. Araştırma bulguları, KSS uygulamalarının firma değerine doğrudan ve olumlu yönde etkilediğini göstermiştir. Daha fazla pazarlama harcamaları daha az firma karlılığına yol açmaktadır ve firma değeri üzerinde bir etkisi yoktur. Ar-Ge'ye yatırım yapmak, KSS uygulamalarına ve karlılığa olumlu yönde etki etmektedir. KSS, Ar-Ge yoğunluğu ve firma değeri ilişkisinde aracılık rolü oynamaktadır. Pazarlama yoğunluğunun, KSS ile firma değeri arasında önemli bir aracılık etkisi yoktur.

Anahtar Kelimeler: Kurumsal Sosyal Sorumluluk, İnovasyon, Pazarlama, Firma Değeri

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Abstract

Corporate social responsibility (CSR) is becoming increasingly an integral part of business practice. This study aims to explain the relationship between CSR practices and firm value by adding two key variables: invest in innovation and invest in marketing. The sample of empirical study consists of manufacture firms registered in Borsa Istanbul/Turkey. Research findings indicated that the CSR practices influence directly and positively to firm value. Higher marketing expenditures leads to less firm profitability and no impact on firm value. Investing in R&D impacts positively to CSR practices and profitability. CSR plays a mediating role between R&D intensity and firm value relationship. There isn't significant mediating effect of marketing intensity between CSR and firm value.

Keywords: Corporate Social Responsibility, Innovation, Marketing, Firm Value

1. Introduction

Companies are changing their strategic approach to create value via corporate social responsibility. Recent researches on corporate social responsibility have presented many evidence that CSR can create value for shareholders. However, this value shows difference from firm to another, or from a certain management strategy to others (Husted and Allen, 2007). Siegel (2001) and Bansal (2005) emphasize to the strong relationship between innovation and corporate social responsibility. Innovation of products, services and processes are considered as management strategy which brings competitive advantage (Mintzberg, 1993) such as quality, productivity, image and performance (Vilanova *et al*. 2009). Hence, firms apply principles of CSR to product, services and processes by R&D expenses. Firms need to change the technology applied which may involve expenditure on R&D. In this study, we considered that the more innovation

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leads to the more effective corporate social responsibility practices. Innovative firms can gain different image by improving their sustainability behavior. Therefore, we aim to explain the effect of investment in R&D on firm value through CSR activities (mediating effect of CSR).

On the other hand, it can be also stated that the effect of CSR on firm value are attached to the ability of firm to influence consumers. Firms carry out corporate social responsibiltiy practices and communicate these practices to society and consumers. Consumer awareness of firm's CSR practices is likely to improve firm value. Therefore, we propose that consumer awareness is likely to play mediating role between CSR and firm value. Barnett (2007, p. 794) pointed out that "the effect of CSR on firm value depends on the ability of CSR to influence stakeholders of the firm".

The paper is designed as follows: section 2 develops conceptual framework. In section 3, research methodology which defines population and sample, dependent and independent variables, measurement and analysis of the structural model. In section 4, the results of the empirical analysis are given and then discussed in section 5.

2. Conceptual Framework and Hypotheses

The concept of CSR can be considered from many perspectives. For example, social performance (Carroll, 1978), business ethics (Solomon, 1993) and accountability (Elkington, 1998). Each perspective bases on different theories such as Agency Theory, Stakeholder Theory and Stewardship Theory. Recently, theories which link directly to CSR and firm resources have been developed. Waldman *et al*. (2004) apply strategic leadership theory to CSR and Castelo and Lima (2006) analyze the application of resource-based theory (RBT). Authors stated that resources which a firm uses to achieve its activities can be classfied as tangible or intangible, and capabilities. Intangible resources and capabilities are considered the most important resources of company. CSR as creator of value is accepted intangible resource. Russo and Fouts (1997) found that high environmental performance leads to high financial performance. McWilliams and Siegel (2001) found that CSR can be used to create a sustainable competitive advantage. CSR activities present the great opportunity to businesses to achieve greater performance. Nidimolu *et al*. (2009) argued that firms which aim sustainability will show higher performance in the future. Firms should consider to be renewed their business models, technologies, products and services and process. In line with arguments mentioned above, following hypothesis was suggested:

H_1: *There is relationship between CSR and firm value.*

2.1. CSR Practices and Innovation

Innovation is defined as "the adoption of new systems, policies, programs, processes, products or services, which can be internally or externally generated" (West and Farr, 1989. p.16). From perspective of resource-based theory, "innovation is recognized as playing central role in creating value and sustaining competitive advantage" (Baregheh *et al.,* 2009, p.1323). The link between innovation and CSR is additional area for studies which try to explain CSR and firm performance relationship. Ray *et al.* (2004) pointed out that the existence of many variables which impact on firm performance is making difficult to determine the effect of CSR practices effectively. McWilliams and Siegel (2000) added two key variables such as level of R&D spending and advertising expenditure to the model that describes CSR and firm performance relationship. Given that these variables are elements of differentiation strategy, they expected a positive correlation between CSR and R&D.

Investment in R&D is likely to encourage to sustainable corporate behavior. Wernerfelt (1984) and Barney (1991) pointed out that when "the resources and capabilities are valuable, rare, inimitable and non-substitutable, they can constitute a source of sustainable competitive advantage" (Cho and Pucik, 2005, p. 556). In the basis of Resource-Based Theory (RBT), Hasseldine *et al.* (2005) have stated that investments in R&D bring about new technology therefore contribute to produce more environmentally friendly products and services. Products and services innovation by including in traditional strategy can be created more value for firms. Strategic CSR also creates firm value through products and services innovation regarding social issues. Therefore, this definition of strategic dimension proposed by Burke and Logsdon (1996) and Manchiraju and Rajgopal (2017) can form the baseline of our research, given that it links innovation to social issues included in the CSR framework. Additionally, intangible resources generated by R&D investment make a firm's technology more flexible, thereby allowing the incorporation of customer preferences into design of goods produced. This resource improves customer satisfaction and firm profitability (Prior *et al.,* 2009). Therefore, this study also aims to explain the effect of investment in R&D on firm value via CSR activities (mediating effect of CSR). In line with arguments mentioned above following hypotheses were suggested:

***H_2:** There is a relationship between investment in innovation and CSR.*

***H_3:** There is a relationship between investment in innovation and firm profitability.*

***H_4:** There is relationship between investment in innovation and firm value via CSR (mediating effect).*

2.2. CSR Practices and Marketing

A marketing budget typically covers costs for advertising, promotion and public relations. Each amount varies according to business size, annual sales and competitors marketing activities. Marketing managers try to implement strategies to enhance the efficiency of marketing efforts, in turn which increases firm profitability. Marketing expenditures are directly linked to the activities aimed at increasing consumer satisfaction, loyalty and retention (Tudose and Alexa, 2017). In this point, CSR practices also increase consumer satisfaction, and firm profitability via consumer awareness provided by marketing efforts. Fishman *et al.* (2008) found that CSR practices enhance the value of firm in industries with high advertising intensity. But authors focus only on two CSR activities: charitable contributions and housing support. Because CSR is multidimensional, it's necessary to re-analyze the empirical evidence on the consumer awareness argument using a more comprehensive definition of CSR. In this study, CSR practices include in five categories such as community, diversity, employees, environment and human rights. Furthermore, their study doesn't explain the mediating effect of marketing intensity between CSR and firm value. On the other hand, we expect that marketing expenditures enhance profitability, but higher marketing expenditures beyond a certain point influence negatively to firm profitability. In line with arguments mentioned above, following hypotheses were suggested:

***H_5:** There is relationship between CSR and firm value via marketing intensity (mediating effect).*

***H_6:** There is a negative effect of marketing expenditures on firm profitability.*

Finally, firm assets will be used as control variable in our model.

3. Methodology

3.1. Data and Variable Construction

The sample consists of manufacture firms registered in Borsa Istanbul. Data were obtained from Public Disclosure Platform Financial Statement Database and Finnet. The number of observations is 404 firms. Data covers the term of 2017. We took values for firms with fiscal year end prior to December. Dependent variables are firm value and firm profitability. Independent variables are determined as R&D intensity, marketing intensity and assets. Assets variable was used as a control variable. Accounting data was employed to compute firm profitability and firm value as measures of firm performance. Data of marketing intensity and assets variables were computed by the same way. CSR was measured with dummy variable. The firms which have CSR activities were coded as 1, while the firms which don't have CSR activities were coded as 0. CSR activities cover five categories such as community, diversity, employees, environment and human rights, but most of firms were engaged in CSR activities related to "environment category". R&D intensity was also measured with dummy variable because some firms didn't have research and development expenditures. R&D expenditures of these firms weren't shown in the balance sheet (Table 1).

Table 1: Variables in the Model and Its Measurement

MODEL VARIABLES	MEASUREMENT
Firm value	Net debt + Market value (2017, in fiscal year end)
Firm profitability	Net Profit /Net Sales
CSR	Dummy variable: Firm which has CSR activities =1; and 0 otherwise
R&D intensity	Dummy variable: Firm which has R&D activities =1; and 0 otherwise
Marketing intensity	Marketing expenditures/Sales
Assets	Fixed assets – amortization/ Total assets

3.2. Analyses

In order to achieve research objectives, first, descriptive statistics of the sample were accounted (Table 2). Thus, we described the variables of the structural model. Second, correlation coefficients of variables were accounted (Table 3). Third, the relationships suggested in the conceptual framework (by hypotheses) were estimated by structural equation model which includes exogenous and endogenous variables. SmartPLS.3 software was used in order to estimate the relationships among variables. This software was preferred as a tool for analysis, because, from perspective of measurement type, it has two categorical variables besides variables measured by ratio scale. SmartPLS.3 software also provides more robust analysis for non-normal data while covariance-based SEM software has distribution assumptions as multivariate normality (Hair et al., 2016). We prefer SEM instead of regression analysis because SEM provides a researcher to analysis simultaneously relationships among many independent variables and dependent variables. Fourth, mediating effects of R&D intensity and marketing intensity were tested.

4. Results

Table 2 contains summary statistics on the measure of variables in our analysis. Means of CSR, firm profitability, firm value, marketing intensity, R&D intensity and assets are 0.44; 9.55, 202; 0.27, 0.29 and 18.67, respectively. From perspective of skewness and kurtosis, it can be seen that these values for firm profitability and marketing intensity variables are above the threshold value accepted for normal distribution of a variable. According to West *et al*. (1989), skewness value should be 7, and kurtosis value should be 2 (Simsek, 2017). As a result, firm profitability variable and marketing intensity variable don't have normal distribution.

Table 2: Descriptive Statistics

	CSR	FIRM PROFITABILITY	FIRM VALUE	MARKETING INTENSITY	R&D INTENSITY	ASSETS
N	404	404	404	404	404	404
Mean	0.448	9.550	2025088817.0	0.279	0.299	18.675
Median	0.000	8.350	180607192.2	0.164	0.000	18.940
Std. deviation	0.497	71.469	6709209730	0.681	0.458	2.337
Variance	0.248	5107.84	4.501E+19	0.464	0.210	5.462
Skewness	0.210	11.891	6.109	12.769	0.879	-1.027
Kurtosis	-1.966	218.950	45.193	208.145	-1.234	3.144
Minimum	0.000	-414.86	-125483384	0.000	0.000	5.94
Maximum	1.000	1235.58	672036000	11.834	1.000	23.61

Table 3 contains the correlation matrix of our dependent and independent variables. None of the correlations are large.

Table 3: Correlation Coefficients

	CSR	FIRM PROFITABILITY	FIRM VALUE	MARKETING INTENSITY	R&D INTENSITY	TOTAL ASSETS
CSR	1.000	-0.023	0.135	0.004	0.259	0.017
Firm Profitability	-0.023	1.000	0.005	-0.154	0.113	0.056
Firm Value	0.135	0.005	1.000	0.035	0.089	0.007
Marketing Intensity	0.004	-0.054	0.035	1.000	0.094	0.028
R&D Intensity	0.259	0.113	0.089	0.094	1.000	0.049
Total Assets	0.017	0.056	0.007	0.028	0.049	1.000

Structural model was tested by PLS Algorithm and Consistent PLS Bootstrapping method and, number of bootstrap samples are 500. The proposed model was found that it had construct validity. The fit indexes of the model were found as SRMR = 0.022; d_ ULS = 0.010; d_ G = 0.002; Chi-Square = 3.987; NFI = 0.93 (Table 4).

Table 4: Model Fit

FIT SUMMARY	ESTIMATED MODEL
SRMR	0.022
d_ ULS	0.010
d_ G	0.002
Chi-Square	3.987
NFI	0.93

Collinearity occurs when two predictor variables in a multiple regression have a non-zero correlation. Collinearity statistics (Table 5) are shown that there is no multicollinearity problem in our model.

Table 5: Collinearity Statistics (VIF)

	CSR	FIRM PROFITABILITY	FIRM VALUE	MARKETING INTENSITY	R&D INTENSITY	TOTAL ASSETS
CSR		1.072	1.072	1.000		
Firm Profitability						
Firm Value						
Marketing Intensity		1.010	1.010			
R&D Intensity	1.000	1.084	1.084			
Total Assets		1.003	1.003			

For discriminant validity, Fornell-Larcker criterion (1981) was applied. According to this criterion, the square root of average variance expanded (AVE) values of all the constructs should be higher than the inter-construct correlations. This situation indicates the discriminant validity. In our research, the results showed that the discriminate validity was acceptable, as shown Table 6. In the table, bold diagonal values show squared root of AVE values, and off-diagonal values represent the correlations of each construct with other constructs.

Table 6: Discriminant Validity-Fornell-Larcker Criteria

	CSR	FIRM PROFITABILITY	FIRM VALUE	MARKETING INTENSITY	R&D INTENSITY	TOTAL ASSETS
CSR	1.000					
Firm Profitability	-0.023	1.000				
Firm Value	0.135	0.005	1.000			
Marketing Intensity	0.004	-0.154	0.035	1.000		
R&D Intensity	0.259	0.097	0.089	0.094	1.000	
Total Assets	0.017	0.056	0.007	0.028	0.049	1.000

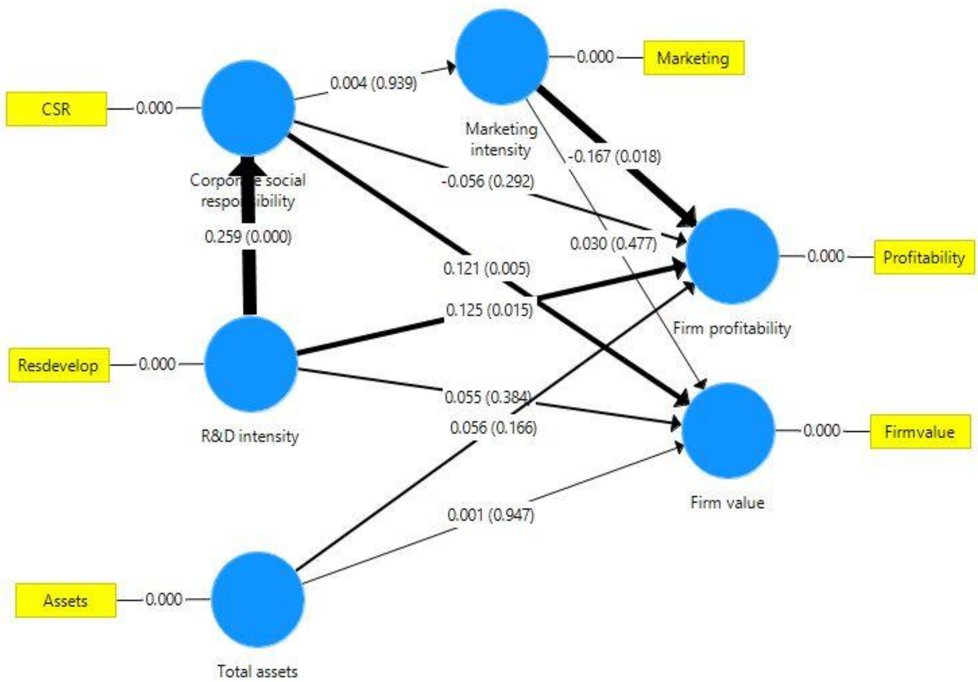
Also, all values related to construct reliability and validity were found as 1 because the variables of the model have single item (Table 7).

Table 7: Construct Reliability and Validity

	CRONBACH'S ALPHA	RHO_A	COMPOSITE RELIABILITY	AVERAGE VARIANCE EXTRACTED (AVE)
CSR	1.000	1.000	1.000	1.000
Firm Profitability	1.000	1.000	1.000	1.000
Firm Value	1.000	1.000	1.000	1.000
Marketing Intensity	1.000	1.000	1.000	1.000
R&D Intensity	1.000	1.000	1.000	1.000
Total Assets	1.000	1.000	1.000	1.000

Figure 1 shows the direct and indirect effects of the structural model.

Figure 1: Standardized Path Coefficients and P Values



From perspective of direct effects; the results indicated that the coefficient of path from CSR to firm value (β=0.12, p<0.01) is significant and positive. H_1 hypothesis is supported. CSR itself is value creating. The coefficient of path from marketing intensity to firm profitability (β =-0.17, p<0.02) is significant and negative. H_6 hypothesis is supported. Higher marketing expenditures leads to less firm profitability. This finding consists to the literature. The coefficient of path from R&D intensity to CSR (β=0.26, p<0.01) is significant and positive. H_2 hypothesis is supported. Innovative firms have more tendency to invest on CSR activities relative to other firms. The coefficient of path from R&D intensity to firm profitability (β=0.13, p<0.02) is significant and positive. H_3 hypothesis is supported. Innovative firms have higher profitability. Clearly, innovative activities leads to higher profitability. On the other hand, CSR doesn't influence directly to firm profitability. Further, CSR doesn't also influence to marketing intensity. The relationships between marketing intensity, R&D intensity, assets and firm value are found as insignificant (Table 8).

Table 8: Path Coefficients of the Model

PATH COEFFICIENTS	MEAN	STANDARD DIVISION	T STATISTICS	P VALUE
CSR → Firm Profitability	-0.038	0.058	0.967	0.334
CSR → Firm Value	0.122	0.042	2.887	0.004**
CSR → Marketing Intensity	0.006	0.050	0.078	0.938
Marketing Intensity → Firm Profitability	-0.208	0.071	2.354	0.019*
Marketing Intensity → Firm Value	0.035	0.045	0.659	0.510
R&D Intensity → CSR	0.259	0.049	5.245	0.000**
R&D Intensity → Firm Profitability	0.121	0.052	2.415	0.016*
R&D Intensity → Firm Value	0.051	0.060	0.915	0.360
Assets → Firm Profitability	0.062	0.037	1.505	0.133
Assets → Firm Value	-0.002	0.023	0.064	0.949

** Significant: 0.01; * significant: 0.05

When we look at indirect effects (Table 9), we see that CSR plays mediating role between R&D intensity and firm value ($\beta=0.03$, $p<0.02$). While R&D intensity doesn't have direct effect on firm value, it has indirect effect on firm value via CSR. H_4 hypothesis is supported. This finding indicates that innovative firms which invest to research and development activities enhance their firm value via CSR activities. Put differently, CSR activities are more likely to impact firm value in innovative firms than others are. However, there isn't significant mediating effect of marketing intensity between CSR and firm value ($\beta=0.00$, $p=0.97$). H_5 hypothesis is rejected.

Table 9: Specific Indirect Effects

PATH COEFFICIENTS	MEAN	STANDARD DIVISION	T STATISTICS	P VALUE
R&D Intensity → CSR → Firm Profitability	-0.010	0.016	0.926	0.335
CSR → Marketing Intensity → Firm Profitability	-0.001	0.011	2.061	0.952
R&D Intensity → CSR → Marketing Intensity → Firm Profitability	-0.000	0.003	0.059	0.953
R&D Intensity → CSR → Firm Value	0.032	0.013	2.420	0.016*
CSR → Marketing Intensity → Firm Value	0.001	0.003	0.035	0.972
R&D Intensity → CSR → Marketing Intensity → Firm Value	0.000	0.001	0.035	0.972
R&D Intensity → CSR → Marketing Intensity	0.002	0.013	0.077	0.939

** Significant: 0.01; * significant: 0.05

5. Conclusion and Discussion

This study explains the role of CSR practices in firm performance, profitability and firm value. Research findings indicated that the CSR practices influence positively to firm value. These activities attract consumers. CSR practices create shareholder value in innovative firms. Therefore, managers should manage CSR activities effectively for more revenues. Invest in R&D impacts positively to CSR practices and profitability. CSR plays mediating role between R&D intensity and firm value relationship. Managers can improve firm value by environment friendly products or services. Innovative firms could differentiate themselves by improving their sustainability behavior.

Higher marketing expenditures leads to less firm profitability. Although marketing managers typically expect that marketing expenditures enhance profitability, higher marketing expenditures beyond a certain point influence negatively to firm profitability. Furthermore, there isn't significant mediating effect of public awareness, as marketing intensity, between CSR and firm value. Despite of intensive marketing efforts, CSR may not improve firm value. This finding may be result from two conditions. First, this situation may result from ineffective marketing efforts that promote consumers about CSR activity. Second, weak general corporate reputation may reduce the effect of CSR activities on firm value (Du *et al*., 2010).

Further researches can explain employee efforts to make CSR activities more effective and the effect of these efforts on firm value. Mediating effect of marketing intensity can be tested on different samples. This issue deserves further research. On the other hand, future researchers can consider the type of innovation applied by firms, and analyze the effect of different type of innovation. Limitations of this study also exist. The ratio of marketing intensity was taken into consideration as a measurement of customer awareness. In the same vein, R&D intensity was considered as a measurement of innovation. Both of them are proxy measurement.

Consequently, this study is meaningful because explains mediating effect of CSR between innovation and firm value and present insights about different conditions to achieve effective CSR activities for policymakers and marketing managers.

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