

# Corporate Social Responsibility, Brand Image and Firm Reputation in Mexican Small Business

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## Abstract

Several investigations are commonly found in marketing literature but there are relatively few theoretical and empirical researches that associate marketing with corporate social responsibility (CSR). There are even less empirical investigations that relate these two important constructs with firm reputation of enterprises aimed to small and medium-size enterprises (SMEs) which shows a clear void in literature regarding the existing relation between CSR activities, brand image of products or services created by enterprises and their firm reputation. For this reason, the main objective of this research paper is the analysis of the existing relation between CSR activities, firm reputation and brand image of products or services of SMEs by using a sample of 308 enterprises from Aguascalientes State. The results obtained show that CSR activities have positive and significant effects in both the firm reputation and brand image of products or services created by SMEs.

**Keywords:** corporate social responsibility, brand image, firm reputation, small business

## 1. Introduction

Even when there is theoretical and empirical evidence of the importance of corporate social responsibility activities (CSR) in firm in the current literature, especially in small and medium-size enterprises (SMEs), it is not possible to find a widely-accepted definition by researchers and academics (Garriga & Melé, 2004; Secchi, 2007). Nonetheless, there is a convergent point among different researchers and academics by considering that CSR, must contain a set of actions carried out by enterprises to benefit society in general, which will have to go beyond their interests and compliance of legal obligations (McWilliams & Siegel, 2006). Additionally, these enterprises also have to carry out their business activities responsibly and ethically such as philanthropic activities, the preservation of the environment and a better level of life for their employees (Carroll, 1979).

In this regard, enterprises will have to go beyond the SMEs managers' personal values and moral (Hemingway & Maclagan, 2004), and line up CSR activities with the business interests and strategies (Moon, 2001), otherwise firms may decrease their firm reputation level, increase significantly their costs, have a bad image brand of their products or services and, consequently, a decrease in their total income (Hill, 2001). Hence, the CSR actions and activities adopted and implemented by SMEs have to line up with the organizational culture, as this will give enterprises several benefits by establishing positive attitudes in their clients and consumers towards their products or services, higher competitive advantages as well as more and better organizational capacities in the long run (Sharma & Vredenburg, 1998; Sen et al., 2006; Maxfield, 2008).

Thus, the CSR programs carried out by SMEs will have to be focused not only to create a higher level of firm performance (Margolis & Walsh, 2003), and firm reputation (McElhaney, 2008), but also in an important change in the management of business strategies (McWilliams et al., 2006), and marketing practices of enterprises such as brand image (Maignan & Ferrell, 2004). As a result of this, CSR activities are related to the brand image of products of enterprises (Kitchin, 2003), as the brand provides a better understanding of the organization (Balmer & Gray, 2003), and it influences all the aspects of enterprises by creating a higher value for consumers and improving the behavior of enterprises (Maio, 2003).

Within this set of ideas, CSR activities are strongly associated to firm reputation and the enterprises' brands image, because such activities can create a difference between the brands of their products and the rest of the competitors (Varadarajan & Menon, 1988). Nonetheless, there are few published investigations in the current literature about these three constructs, and therefore it is important to increase the number of theoretical and empirical researches, that contribute with more evidence of the existing relation among these three constructs (Ker-Tah, 2012). Therefore, following the recommendations of Lindgreen et al. (2012) and Ker-Tah (2012), the

main contribution of this research paper is the analysis and discussion of the existing relation between CSR activities, firm reputation and brand image of products or services of SMEs.

## 2. Method

Nowadays, enterprises that blend their marketing activities with CSR activities normally improve in a significant way their business identity and reputation. Moreover, when their CSR accomplishments and activities are associated to the social needs of the community where they are, they improve even more their marketing activities such as the brand image of their products or services (Sen et al., 2006). Likewise, enterprises, especially SMEs, which tie up their CSR activities with marketing activities, cannot only improve significantly their reputation level among consumers and commercial partners (Lindgreen et al., 2012), but also create different benefits such as a better firm performance and, particularly, a higher level of brand image of products or services of enterprises (Werther & Chandler, 2005; Porter & Kramer, 2006).

Similarly, there is theoretical and empirical evidence in the current literature of marketing that establishes the existence of several benefits, when CSR activities and brand image of enterprises are related. One of the main advantages is the positive evaluation of the products or services made, by both consumers and business associates (Sen & Bhattacharya, 2001; Klein & Dawar, 2004; Sen et al., 2006). For this reason, the link between CSR activities and brand image can be essential, for both the creation of a higher development of the value of brand image (Kitchin, 2003; McElhaney, 2008), and the production of a higher level of value through the differentiation of existing products or services in the market as well as a higher level of firm reputation (McWilliams et al., 2006).

Accordingly, CSR activities can also be considered as a fundamental criterion that creates a higher value of the brand of the products or services in a sustainable (Middlemiss, 2003), and safe way which is why more enterprises are adopting and implementing the CSR activities as part of their everyday actions, in order to achieve not only an improvement in brand image but also in the level of firm reputation (Menon & Kahn, 2003; Polonsky & Jevons, 2006). However, the development of CSR activities is a complex process that is characterized mostly on how each enterprise defines CSR activities, the type of activities they carry out and consider as socially responsible as well as the operationalization of the term. Depending on the understanding of executives of the CSR activities they will indicate impact of the activities in brand image and firm reputation (Polonsky & Jevons, 2006).

Furthermore, the CSR initiatives made by organizations, especially SMEs, can help considerably to stand out their products and services from the ones made by their main competitors, through the creation of an image of the positive brand and a higher level of firm reputation (Ker-Tah, 2012). In order to do this, the executives of enterprises, especially SMEs, have to adopt and implement CSR activities, and actions as well as integrate differentiation business strategies and invest in the development of new products or services, and the creation of advertising and promotion campaigns (Gardberg & Fombrun, 2006; McWilliams et al., 2006).

Hence, McWilliams & Siegel (2001) concluded that the level of CSR in enterprises depends on a high percentage, from the investment made in the development of new products or services and advertising campaigns. So, CSR activities, the investment in the development of new products or services and advertising campaigns, contribute greatly to the differentiation of products or services of enterprises and, consequently, in the improvement of the brand image of such products and the firm reputation (Ker-Tah, 2012). That is why a high level of advertising in the form of initiatives, actions and CSR activities will produce a higher brand image of the products or services of enterprises and a higher level of firm reputation (Keller, 1993).

In this regard, some published investigations in the current literature of business sciences and marketing have identified a positive, significant relation between CSR activities and brand image of products or services created by enterprises (Lai et al., 2010), and between CSR activities and firm reputation (Brickley et al., 2002; Lai et al., 2010), but there are few published papers that link these three constructs simultaneously (Ker-Tah, 2012). That is why, it is necessary to analyze with more detail the internal and external reasons that enterprises have to implement CSR activities (Basu & Palazzo, 2008). One of the external reasons is the influence of CSR initiatives on brand image of products or services of enterprises (Bhattacharya & Sen, 2004), and one of the internal reasons is the improvement of the level of firm reputation (Fombrun, 2005).

Within this set of ideas, Brickley et al. (2002) concluded that the firm's reputation produces an ethical behavior that encompasses the integrity and good relationship, with their business associates which constitute an essential part of the brand image of products or services created by enterprises. As a result, the consumers' perception about the CSR activities implemented by enterprises, especially SMEs, may have a significant, positive effect in the brand image of products or services of firms (Ker-Tah, 2012). To exemplify this, Lai et al. (2010) obtained

some empirical results that provide enough empirical evidence that CSR activities affect in a positive way, both the brand image of products or services of industries and the level of firm reputation, especially in SMEs.

From this perspective, CSR activities can be linked directly and positively with the brand image of products or services created by enterprises by means of an interaction with business associates, clients and consumers (Maio, 2003). Therefore, in order to rank the brand image among consumers it is necessary to apply a significant strategy, not only for CSR activities but also a communication program of such activities between the internal and external clients of the organization (Polonsky & Jevons, 2006). Thus, in a global context where SMEs normally work, the business associates, clients and consumers demand from enterprises the development of actions and activities, that have a socially responsible orientation (Carroll, 2004), which in turn can be associated to the brand image of products or services produced by enterprises (Werther & Chandler, 2005).

Additionally, Blomqvist & Posner (2004) found that the efforts made by enterprises in the development of CSR activities, can be watered down significantly if the owners of enterprises and their business associates obtain a high income but do not support social activities. This type of actions is strongly criticized by consumers, by considering that enterprises promise more than what they return to the community when they have the means to do so. Consequently, the perception of consumers regarding the CSR activities carried out by enterprises, will be essential to achieve a better brand image of products or services (den Hond & de Bakker, 2007). That is why CSR actions and activities have a positive, significant relation with brand image (Smith, 2003; Maignan et al., 2005; Porter & Kramer, 2006; Ellen et al., 2006; Maon et al., 2009). Therefore, considering the information presented above, at this point it is possible to establish the following hypothesis:

***H1: The higher implementation of CSR activities, higher level of brand image of products or services of SMEs.***

Regarding the existing relation between CSR activities and firm reputation, Brammer & Millington (2005) concluded that the firms that had a high level of philanthropic activities and actions, were usually perceived as socially responsible and had a higher level of firm reputation than those enterprises that had a low level of philanthropic activities. Similarly, Lai et al. (2010) found in their research a strong, positive relation between CSR activities and firm reputation which implies that business associates, clients and consumers have a great and positive perception of the CSR initiatives that enterprises have adopted and implemented, which in turn becomes not only a higher level of business performance, but also a higher level of firm reputation (Ker-Tah, 2012).

Accordingly, in a highly competitive environment and an increasingly globalized market, an important number of enterprises are adopting and implementing CSR actions and activities, as a business strategy to act efficiently and effectively to the expectations of business associates, clients and consumers which can create a higher level of firm reputation (Jones, 2005). Henceforth, enterprises that have considered the adoption and implementation of CSR activities need that managers and executives understand the importance of this type of activities, so they can consider them not only as a business strategy but rather as a daily activity which can produce a high level of firm reputation (Porter & Kramer, 2006).

Likewise, McWilliams et al. (2006) proposed that CSR activities should be considered as a type of strategic investment, which can make enterprises adopt and implement a better level of firm reputation. In the same trend, Fombrun (2005) concluded that in order to increase significantly the level of their firm reputation, enterprises first will have to adopt and implement CSR activities, whereas Gardberg & Fombrun (2006) considered that firm reputation is one of the best results provided by CSR activities. Finally, Bendixen & Abratt (2007) established that the consumers' perception of CSR activities can be considered as the basis of firm reputation. In short, there is theoretical and empirical evidence of the existing relation between CSR activities and firm reputation (Deephouse, 2000; Roberts & Dowling, 2002; Siltaoja, 2006; Love & Kraatz, 2009; Pfarrer et al., 2010; Lange et al., 2011). Considering the information presented above, at this point it is possible to establish the second research hypothesis:

***H2: The higher implementation of CSR activities, higher level of firm reputation of SMEs.***

In order to answer the research hypotheses proposed presented in this paper, a theoretical research was made in SMEs of Aguascalientes State (Mexico), by taking into consideration the 2016 directory of the Sistema de Información Empresarial Mexicano (System of Mexican Business Information, or SIEM), which had 6,662 firms registered in January 2016. For practical purposes of this research, the only companies selected were those that had from 5 to 250 employees which reduced the directory to 1,334 SMEs. Accordingly, a questionnaire was applied as a personal interview to managers and/or owners of a sample of 308 SMEs, which were selected randomly with an ordinary sampling with a maximum error of  $\pm 5\%$  and a reliability level of 95%. The interviews with the managers and/or owners of the 308 enterprises were made from January to April 2016.

Likewise, three dimensions were considered for the measurement of CSR activities: social, environmental and economic. The social dimension was measured by means of a fifteen-item scale; the environmental dimension was measured by means of a seven-item scale and the economical dimension was measured by means of a nine-item scale. The three dimensions were adapted from the European Union (2001), Bloom & Gundlach (2001), Bigné et al. (2005), and Alvarado & Schlesinger (2008). The scales to measure both brand image and firm reputation were adapted from Alvarado & Schlesinger (2008). The brand image was measured by means of a seven-item scale, and the firm reputation was measured by means of a four-item scale. In this way, all the items of the five scales used are built based on a Likert-type scale of five positions from “1 = completely disagree to 5 = completely agree” as limits.

Similarly, the reliability and validity of the five scales used in this research was evaluated with a Factorial Confirmatory Analysis of second order (FCA), by using the method of maximum likelihood with the software EQS 6.2 (Bentler, 2005; Brown, 2006; Byrne, 2006). Furthermore, the reliability of the five scales considered in this empirical research was evaluated with two essential indices: Cronbach’s alpha and the Composite Reliability Index (CRI) proposed by Bagozzi & Yi (1988). Additionally, the recommendations made by Chou et al. (1991) and by Hu et al. (1992), were taken into consideration regarding the correction of statistics of the theoretical model, when it is considered that the normalcy of data is present, as well as the robust statistics proposed by Satorra and Bentler (1988) in order to provide a better statistical adjustment of the data from the five scales used.

The results of the FCA of second order are presented in Table 1 and they indicate that the theoretical model has an excellent adjustment of data ( $S-BX^2 = 848.568$ ;  $df = 428$ ;  $p = 0.000$ ;  $NFI = 0.830$ ;  $NNFI = 0.843$ ;  $CFI = 0.845$ ;  $RMSEA = 0.057$ ), since all the items of the related factors are significant ( $p < 0.01$ ), the size of all the standardized factorial loads are higher than 0.60 (Bagozzi & Yi, 1988), Cronbach’s alpha and the CRI have a value higher than 0.70, and the Variance Extracted Index (VEI) has a value higher than 0.50 (Fornell & Larcker, 1981). Therefore, all these values indicate that there is enough evidence of reliability and convergent validity, which justifies the internal reliability of the five scales used (Nunally & Bernstein, 1994; Hair et al., 1995).

Table 1. Internal consistency and convergent validity of the theoretical model

Variable	Indicator	Factorial Loading	Robust t-Value	Cronbach’s Alpha	CRI	VEI
Social Responsibility (F1)	RSS6	0.688***	1.000 <sup>a</sup>	0.913	0.914	0.585
	RSS7	0.692***	6.694			
	RSS8	0.655***	6.357			
	RSS9	0.615***	5.956			
	RSS10	0.799***	7.538			
	RSS11	0.739***	8.378			
	RSS12	0.793***	8.638			
	RSS13	0.839***	8.833			
	RSS14	0.874***	8.969			
	RSS15	0.897***	8.658			
Environmental Responsibility (F2)	RSA3	0.704***	1.000 <sup>a</sup>	0.888	0.889	0.617
	RSA4	0.754***	12.281			
	RSA5	0.811***	13.151			
	RSA6	0.855***	13.770			
	RSA7	0.794***	12.889			
Economic Responsibility (F3)	RSE4	0.648***	1.000 <sup>a</sup>	0.857	0.858	0.548
	RSE6	0.749***	8.294			
	RSE7	0.764***	9.083			
	RSE8	0.720***	8.805			
	RSE9	0.813***	9.339			
Corporate Social Responsibility	F1	0.881***	7.825	0.821	0.822	0.609
	F2	0.741***	8.652			
	F3	0.708***	7.035			
Brand Image	IMA1	0.647***	1.000 <sup>a</sup>	0.918	0.919	0.619
	IMA2	0.825***	10.035			
	IMA3	0.830***	10.063			
	IMA4	0.817***	9.980			
	IMA5	0.768***	9.654			
	IMA6	0.837***	10.105			
	IMA7	0.764***	9.632			

	REP1	0.821***	1.000 <sup>a</sup>			
Firm Reputation	REP2	0.782***	13.747	0.906	0.907	0.709
	REP3	0.881***	20.637			
	REE4	0.880***	22.333			

$S-B\chi^2$  (df = 428) = 848.658;  $p < 0.000$ ; NFI = 0.830; NNFI = 0.843; CFI = 0.845; RMSEA = 0.057

Note. <sup>a</sup> = Constrained parameters to such value in the identification process. \*\*\* =  $p < 0.01$ .

Regarding the discriminant validity, the evidence is provided through two tests that can be observed in Table 2. Firstly, a *reliability interval test*, proposed by Anderson & Gerbing (1988), establishes that with an interval of 95% of reliability none of the individual latent elements of the matrix of correlation must have a value of 1.0. Secondly, the *extracted variance test*, proposed by Fornell & Larcker (1981), establishes that the extracted variance index between each pair of constructs must be higher than their corresponding VEI. Therefore, based on the results obtained from both tests in this research paper, it can be concluded that that both tests provide enough evidence of discriminant validity.

Table 2. Discriminant validity of the theoretical model

Variables	Corporate Social Responsibility	Brand Image	Firm Reputation
<b>Corporate Social Responsibility</b>	<b>0.609</b>	0.071	0.051
<b>Brand Image</b>	0.184-0.352	<b>0.619</b>	0.088
<b>Firm Reputation</b>	0.123-0.327	0.213-0.381	<b>0.709</b>

The diagonal represents the Variance Extracted Index (VEI), whereas above the diagonal the variance is presented (squared correlation). Below diagonal, the estimated correlation of factors is presented with 95% confidence interval

### 3. Results

In order to prove the research hypotheses presented in the theoretical model, a model of structural equations of second order was applied with software EQS 6.1 with the same variables used in the FCA (Bentler, 2005; Byrne, 2006; Brown, 2006). In it, the nomological validity of the theoretical model was examined through the square Chi test which compared the results obtained between the theoretical model and the measurement model. Such results indicate that the differences between both models are not significant which can offer an explanation of the relationships observed among the latent constructs (Anderson & Gerbing, 1988; Hatcher, 1994). Table 3 shows these results in a more detailed way.

Table 3. Results from the structural equations model

Hypothesis	Structural Relationship	Standardized Coefficient	Robust t-Value
<b>H1:</b> Higher level of CSR, higher level of Brand image.	CSR→Brand Image	0.900***	8.897
<b>H2:</b> Higher level of CSR, higher level of firm reputation.	CSR→Firm Reputation	0.746***	9.051

$S-B\chi^2$  (df = 429) = 906.079;  $p < 0.000$ ; NFI = 0.807; NNFI = 0.822; CFI = 0.824; RMSEA = 0.060

Note. \*\*\* =  $P < 0.01$ .

Table 3 shows the results obtained from the implementation of the structural equations model of second order. Regarding the hypothesis **H<sub>1</sub>** the results obtained,  $\beta = 0.900$ ,  $p < 0.01$ , indicate that CSR has significant, positive effects in the brand image of products or services of SMEs. Regarding the hypothesis **H<sub>2</sub>** the results obtained,  $\beta = 0.746$ ,  $p < 0.01$ , indicate that CSR activities also have significant, positive effects in the level of firm reputation. Consequently, it is possible to conclude that the CSR actions and activities adopted and implemented by SMEs will have important repercussions for both the brand image of products or services and their level of firm reputation.

### 4. Discussion

By considering the results obtained in this empirical research, it is possible to conclude two fundamental aspects. Firstly, the level of the brand image of products or services will be seriously affected by the CSR actions and

activities adopted and implemented by SMEs. Depending on the communication program that enterprises have to spread among their clients and consumers of the products or services provided by SMEs, they will have a level of the brand image of the products or services that enterprises sell. If the communication program achieves the goal of communicating effectively and efficiently the actions taken by enterprises to benefit the society, environment and life conditions of their workers and society in general, then clients and consumers will choose the products and services created by this type of SMEs which will enable a significant improvement in the level of the brand image of such products or services.

Secondly, it is also possible to conclude that the level of firm reputation of enterprises will depend on the level of adoption and implementation of CSR activities since firm reputation will greatly depend on the development of CSR activities. Hence, if SMEs want to improve significantly their level of reputation, then they will first have to develop CSR activities that benefit society, protect the environment and improve the economic and life conditions of their employees and workers. In other words, they have to fulfill their commitment and social responsibility as this will allow their business associates, clients and consumers to choose their products or services instead of the ones of their main competitors and at the same time improve not only their business results but also the enterprise's reputation.

In short, it is possible to conclude that the level of the brand image of products or services produced by SMEs and the level of firm reputation will depend on the adoption and implementation of CSR actions and activities as well as the communication program of such CSR actions because the CSR activities have positive, significant effects in the brand image through the market preference in the acquisition of products or services but they also have the same effects in the reputation of enterprises because their business associates, clients and consumers acknowledge their own social responsibility. Therefore, it is possible to conclude, with the results obtained, that there is a very close link between CSR activities, the brand image of products or services created by SMEs and the level of firm reputation of enterprises.

Similarly, the results obtained also have several implications in enterprises and their executives. The first one is that managers and/or owners of SMEs have to know the advantages gained by being a socially responsible enterprise in order to adopt and implement CSR activities. After that, they have to design a communication program of CSR activities so their clients and consumers know such actions. If enterprises are able to carry out these activities then SMEs will have more probabilities that clients and consumers of their products or services prefer instead of the ones of their main competitors. This will produce as a result a higher level of the brand image of products or services created by SMEs and a better firm reputation.

Likewise, the executives of SMEs will have to involve all their employees and workers in the CSR actions and activities as this will help the staff of the organization to feel identified with the organization and take the actions and activities of social responsibility as their own. Thus, managers and/or owners of enterprises will have to create a working environment where employees and workers work as a team, share their experiences and skills so everyone works for the same goal: to make that the products or services of SMEs have a higher level of preference among the consumers than the rest of the products or services offered in the market which will allow that the level of the brand of such products or services and the level of reputation of enterprises can increase significantly.

Additionally, managers and/or owners of SMEs have to implement an adequate training program for their employees and workers so they know all the benefits and advantages obtained by being a socially responsible enterprise. If SMEs have the ability to develop these actions, then it will be easy for the organization to adopt and implement CSR actions and activities since their employees and workers will become the main supporters of the socially responsible actions carried out by the enterprise, otherwise it will be too complicated for SMEs to communicate efficiently and effectively to their business associates, clients and consumers that the CSR actions and activities carried out by the enterprise have a social cause, protect the environment and improve the life standards of their personnel and society in general which will give as a result a bad brand image of their products or services and a low level of firm reputation.

Finally, managers and/or owners of SMEs will have to get the support of private and public organizations through the different programs they offer, especially the government programs from the three levels so the enterprises can achieve the prestige and certification of socially responsible enterprises and facilitate the adoption and implementation of CSR actions and activities as a result of this. If SMEs obtain these benefits through government and private programs, then they will have higher probabilities that the brand image of products or services can have a higher level of acknowledgement from their business associates, clients and consumers and with it a higher level of firm reputation.

Conversely, this empirical research also has some limitations that are important to consider. One of the first limitations is related to the three scales used for the measurement of CSR activities, brand image and firm reputation because only three dimensions were considered to measure CSR (social, economic and environmental) and only one dimension to measure brand image and firm reputation. Further investigations will need to incorporate other scales to verify the results obtained. A second limitation is the information obtained by considering only qualitative variables to measure the three scales. Further researches will need to incorporate quantitative variables and hard data of enterprises to verify the results obtained.

A third limitation is that the questionnaire used to obtain the information was applied only to managers and/or owners of SMEs in Aguascalientes State (Mexico). Consequently, the results obtained could be completely different if the questionnaire is used in a different population. Further investigations will have to apply the questionnaire in other states of the country and in other countries to verify the results obtained. A fourth limitation is that the only enterprises used for this research had from 5 to 250 workers. Further investigations will need to consider enterprises with less than five workers to prove the results obtained. A fifth limitation is that it was assumed that all managers and/or owners of SMEs that were interviewed had a clear idea and knowledge about CSR activities, the reputation of the brand of products or services created by their enterprises and the level of firm reputation their business may have achieved which is not necessarily or completely true.

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