Journal of Business Research 68 (2015) 341–350

Contents lists available at ScienceDirect

Journal of Business Research

How does corporate social responsibility contribute to firm financial performance? The mediating role of competitive advantage, reputation, and customer satisfaction

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ARTICLE INFO

Article history:
Received 16 May 2013
Received in revised form 21 June 2014
Accepted 25 June 2014
Available online 23 July 2014

Keywords:
Corporate social responsibility
Reputation
Customer satisfaction
Competitive advantage
Firm performance
Iran

ABSTRACT

Direct relationship between corporate social responsibility (CSR) and firm performance has been examined by many scholars, but this direct test seems to be spurious and imprecise. This is because many factors indirectly influence this relation. Therefore, this study considers sustainable competitive advantage, reputation, and customer satisfaction as three probable mediators in the relationship between CSR and firm performance. The findings from 205 Iranian manufacturing and consumer product firms reveal that the link between CSR and firm performance is a fully mediated relationship. The positive effect of CSR on firm performance is due to the positive effect CSR has on competitive advantage, reputation, and customer satisfaction. The final findings show that only reputation and competitive advantage mediate the relationship between CSR and firm performance. Taken together, these findings suggest a role for CSR in indirectly promoting firm performance through enhancing reputation and competitive advantage while improving the level of customer satisfaction.

1. Introduction

Recognition of the direct relationship between CSR and firm performance has garnered much interest among authors recently. The findings are rather inconclusive and misleading (Margolis & Walsh, 2003; Mishra & Suar, 2010; Vogel, 2005). This is because, while a positive association between CSR and firm performance has been a dominant theme in many articles, universally, (e.g. Abu Bakar & Ameer, 2011; Oeyono, Samy, & Bampton, 2011; Orlitzky, Schmidt, & Rynes, 2003; Roshayani, Faizah, Suaini, Mustaffa, & Tay, 2009; Van Beurden & Gössling, 2008), others suggested a negative or no correlation (e.g. ACCA, 2009; Aupperle, Carroll, & Hatfield, 1985; Crisóstomo, Freire, & Vasconcellos, 2011; Malcolm, Khadijah, & Ahmad Marzuki, 2007).

Some scholars (e.g. Alafi & Hasoneh, 2012; Galbreath & Shum, 2012; Griffin & Mahon, 1997; Margolis & Walsh, 2003; Rowley & Berman, 2000; Wood & Jones, 1995) questioned the applied approach taken by the majority of studies which have examined the direct relationship between CSR and firm performance. They claim that positive, negative or neutral results obtained by examining the direct relationship between CSR and firm performance cannot be 100% reliable, as this link may be affected by some other intervening factors which many studies have omitted.

Finally, it can be concluded that the relationship between CSR and firm performance is more complicated than the results of many previous studies indicate. Accordingly, this study attempts to extend previous researches on the relationship between CSR and firm performance. In doing so, a new question that will be asked in this study is: 'Are competitive advantage, reputation, and customer satisfaction mediators in the relationship between CSR and firm performance?' In undertaking this study, and in addition to verifying some predicted CSR benefits such as customer satisfaction, reputation, and competitive advantage, the relationship between CSR and firm performance, which is more complex than most studies showed, will be tested.

Previous studies in different environmental management domains have predicted that customer satisfaction, reputation, and competitive advantage are three outcomes of CSR (e.g. Mulki & Jaramillo, 2011; Salmones, Perez, & Bosque, 2009; Walsh & Beatty, 2007). Firm performance is also positively affected by these three interdependent variables (Li, Ragu-Nathan, Ragu-Nathan, & Subba Rao, 2006; Matzler & Hinterhuber, 1998; Mulki & Jaramillo, 2011; Yamin, Gunasekaran, & Mavondo, 1999). Evidence has revealed that high levels of customer satisfaction have two main consequences for a firm including reputation

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http://dx.doi.org/10.1016/j.jbusres.2014.06.024
0148-2963/

and competitive advantage (Anderson & Sullivan, 1993; Matzler & Hinterhuber, 1998; Walsh, Dinnie, & Wiedmann, 2006). Therefore, customer satisfaction, reputation, and competitive advantage should be included together in studies on the relationship between CSR and firm performance.

Some authors attempted to identify the role of these variables as the main intervening variables in the relationship between CSR and firm performance (e.g. Alafi & Hasoneh, 2012; Galbreath & Shum, 2012; Luo & Bhattacharya, 2006; Margolis, Elfenbein, & Walsh, 2008; Margolis & Walsh, 2003; Rowley & Berman, 2000; Ullmann, 1985). For example, Luo and Bhattacharya (2006) and Alafi and Hasoneh (2012) examined only the role of customer satisfaction as a mediator in this relationship. Later Galbreath and Shum (2012) expanded Luo and Bhattacharya's (2006) and Alafi and Hasoneh's (2012) works by adding reputation as another mediator.

This study argues that the relationship between CSR and firm performance is more complex that previous researches have revealed. Therefore, sustainable competitive advantage which has been omitted as the final outcome of customer satisfaction and reputation (Awang & Jusoff, 2009) is assumed to be another effective mediator in this relationship. Accordingly, this study tests and develops a more complex relationship between CSR and firm performance by including three mediators (customer satisfaction, reputation, and sustainable competitive advantage) as three predicted benefits of CSR. Mediating these three variables directs future researches away from an indefensible direct relationship between CSR and firm performance.

It is worth noting that most studies on CSR and firm performance have been done in developed countries based on European and US data. Therefore, a sample from Iran as a developing country could be helpful in demonstrating CSR outcomes in a worldwide context. This is important as CSR has never been adequately addressed in Iranian businesses in practical terms and in the academic environment in theoretical terms (Chapardar & Khanlari, 2011). Moreover, evidence shows that expectation of CSR level among Iranian firm's stakeholders is higher than the actual level of CSR practiced by firms (Salehi & Azary, 2009). Therefore, sufficient ground exists for such studies in Iran which is mainly outside the scope of international researches and is underutilized as a selected sample in the area of CSR (Chapardar & Khanlari, 2011; Nejati & Ghasemi, 2012).

2. Literature and hypotheses development

2.1. Corporate social responsibility (CSR)

Over the last few decades, researchers have paid considerable attention to CSR. Therefore, it has become a prominent concept in management literature (de Bakker, Groenewegen, & den Hond, 2005; Dobers, 2009; Nejati & Ghasemi, 2012). In addition to theoretical aspects, companies have also become more active in engaging CSR in practice (Dahlsrud, 2008; McWilliams, Siegel, & Wright, 2006). The driving force behind this is an upsurge in environmentally sensitive consumers who are demanding sustainable and more environmentally friendly products and services (Gauthier, 2005; Van Beurden & Gössling, 2008).

Despite the large body of literature on CSR, there is still no unified and precise definition (Scherer & Palazzo, 2007; Wood, 2010). Thus, CSR does not mean the same thing to everybody (Van Marrewijk, 2003). Wood (2010) contends that this is because CSR is difficult to conceptualize. Talaei and Nejati (2008) also claimed that the lack of clear conceptual boundaries has led to these diverse definitions. In light of these claims, some authors (e.g. Lozano, 2008; Orlitzky, Siegel, & Waldman, 2011; Van Beurden & Gössling, 2008) believe that the lack of a clear definition makes it difficult to conduct empirical studies on CSR.

Despite the lack of a clear definition, all contending definitions of CSR agree on one thing, which is that firms must meet the expectations of society when planning their environmental management strategies (Gossling & Vocht, 2007). According to Van Beurden and Gössling (2008) CSR answers the uncertainties that business corporations have to cope with in terms of the social context of the dynamic, global, and technological business arena that we witness today. In a well-known definition of CSR by Carroll (1979), CSR is the social responsibility of a business which includes the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time.

Carroll's (1979) definition is the clearest conceptualization of CSR because, in addition to identifying the firm's obligations toward society, it systematically differentiates the firms' responsibilities from mere profit making and from the social responsibilities of governments (Chen, Chang, & Lin, 2012; Lozano, 2008; Wood, 2010). Proof of the strength of this claim is the variety of scholars who have used this definition in their studies (e.g. Galbreath, 2008; Galbreath & Shum, 2012; Sheth & Babiak, 2010; Shum & Yam, 2011).

This study considers the economic and ethical dimensions of CSR as presented by Carroll (1979). It is also argued by Turker (2009) that while economic responsibility should be distinguished from other responsibilities, they should be considered together in addressing CSR because financial interests are the fundamental reason for establishing a business, and corporate ethical behaviors, which are something beyond mere financial issues, are the main factor influencing an organization's survival (Nejati & Ghasemi, 2012).

2.2. CSR and firm performance

In the history of development economics, CSR has been thought of as a key factor in attaining economic goals and wealth generation (Garriga & Mele, 2004). Therefore, many studies attempted to find a global link between CSR and firm performance (e.g. Alafi & Hasoneh, 2012; Galbreath & Shum, 2012; Lin, Yang, & Liou, 2009; Luo & Bhattacharya, 2006; Margolis et al., 2008; Orlitzky et al., 2003; Rettab, Brik, & Mellahi, 2009; Shen & Chang, 2008; Van Beurden & Gössling, 2008). For example, empirical findings by some (e.g. Alafi & Hasoneh, 2012; Galbreath & Shum, 2012; Luo & Bhattacharya, 2006; Margolis et al., 2008; Shen & Chang, 2008) researchers showed a positive association between CSR and firm performance. Orlitzky et al.'s (2003) findings further support the idea presented by Garriga and Mele (2004). Their study, which involved a review of all 52 earlier surveys about the correlation between CSR and company performance, showed that more socially responsible companies had stronger economic results. Later, survey data was adopted from 280 companies in UAE by Rettab et al. (2009) to examine the connection between CSR operations and company performance; the outcome indicated that CSR has a positive association with all three determinants of company performance: monetary performance, personnel commitment, and corporate integrity. The impact of CSR on firm performance among 1000 Taiwanese cases was also examined and a positive association between CSR and monetary performance was identified (Lin et al., 2009). Galbreath (2008) also found strong positive links between CSR and organizational benefits among Australian firms. Consistent with previous studies, after examining 34 previews studies on CSR and firm performance linkage by Van Beurden and Gössling (2008), it was found that 68% of studies demonstrated a positive association. Lastly, the positive and strong relevance of CSR and firm performance was clearly supported by Alafi and Hasoneh's (2012) findings which had been done based on Housing Banks in Jordan.

Review of the available literature reveals that the majority of studies cited use developed European or US samples (Galbreath & Shum, 2012). Despite (1) the lack of study on CSR and firm performance in developing countries, especially in an Iranian context; (2) being underutilized as a selected sample in international researches (Chapardar & Khanlari, 2011; Nejati & Ghasemi, 2012); and (3) the existence of a negative gap between actual and expected level of CSR among Iranian firms (Salehi & Azary, 2009), we predict that similar results to that of Western countries will be found in Iran, a developing Asian country. It is worth noting that the main perspective of the current study is based on the indirect effect of CSR on firm performance. Since the Baron and Kenny (1986) procedure is employed in this study to test hypotheses, the direct relationship between CSR and firm performance should be tested in the first stage. Therefore, it is hypothesized that:

H1. CSR is positively associated with firm performance.

2.3. Sustainable competitive advantage, reputation, customer satisfaction and firm performance

Margolis and Walsh (2003) remark that many studies focused only on testing the direct relationship between CSR and firm performance, while some scholars (e.g. Alafi & Hasoneh, 2012; Galbreath & Shum, 2012; Luo & Bhattacharya, 2006; Ullmann, 1985; Wood, 2010) claim that testing the direct relationship between CSR and firm performance only serves to obscure many influential factors in this relationship and that the final findings will be unreliable. Therefore, in order to obtain reliable results, influential variables which are omitted and ignored should be considered and empirically examined. Three interconnected variables, customer satisfaction, reputation, and sustainable competitive advantage, will be included in this study as variables that should be included in order to obtain a reliable result.

Existing literature reveals that customer satisfaction, reputation, and competitive advantage are positively related to firm performance. Researches on the relationship between reputation and firm performance showed that not only financial benefits but also non-financial advantages are outcomes of a good reputation (Black, Carnes, & Richardson, 2000; Brown & Perry, 1994; Flatt & Kowalczyk, 2011; Roberts & Dowling, 2002; Sabate & Puente, 2003). For example, Helm (2007) claimed that a company with a good reputation is perceived to be 'less risky than companies with equivalent financial performance, but with a less well-established reputation'. From the view point of financial advantage, Kotha, Rindova, and Rothaermel (2001) and Roberts and Dowling (2002) found that firms with higher reputation enjoy higher sales growth and higher return on assets (ROA). In confirmation of such studies, Shamsie (2003) and Fombrun and Shanley (1990) found a positive relationship between reputation and firm performance. Finally, Cabral (2012) claimed that a firm's performance depends on its reputation, and that reputation depends stochastically on the firm's efforts and strategies to maintain and improve it. An effective effort that helps firms to maintain and improve their long-term reputation is increasing customer satisfaction (Anderson & Sullivan, 1993), a finding confirmed by Galbreath and Shum (2012) who agree that reputation is an outcome of customer satisfaction.

Customer satisfaction is a measure of how products and services supplied by a company meet or surpass customer expectations (Ahmed, Gul, Hayat, & Qasim, 2001). More and more firms use satisfaction ratings as an indicator of performance (Matzler & Hinterhuber, 1998). Therefore, it could be claimed that higher levels of performance are affected by higher levels of customer satisfaction. The findings of Anderson, Claes, and Rust (1997) indicate that customer satisfaction leads to higher levels of return on investment (ROI) by improving productivity. In addition, Lombart and Louis (2012) and Gallarza, Gil-Saura, and Holbrook (2011) claimed that customer loyalty is a consequence of customer satisfaction. This claim was supported by authors who contend that increased customer satisfaction leads to increased customer loyalty which in turn helps firms to obtain higher levels of financial performance (e.g. Cronin, Brady, & Hult, 2000; Fornell, 1992; Rust & Zahorik, 1993). Therefore, the findings support Galbreath and Shum's (2012) finding that there is no direct and positive association between customer satisfaction and firm performance, and that this relationship is mediated by reputation. In a comprehensive study, Reichheld and Earl Sasser (1990) tried to link customer satisfaction, loyalty, and financial performance. Their findings support the claim that loyalty mediates the effect of customer satisfaction on financial performance as satisfied customers are likely to buy more frequently and in greater volume. In addition, satisfied customers will also be more likely to purchase other goods and services offered by the firm, thereby becoming increasingly loyal to the firms' products and services. All these results show that firm performance is not directly associated with customer satisfaction, but that performance is mediated by some intervening variables. Therefore, customer satisfaction cannot be considered as the sole mediator in the relationship between CSR and firm performance.

According to Gupta (2002), customer satisfaction and reputation are the main components of competitive advantage. In their study, Awang and Jusoff (2009) also found that corporate reputation has an influential impact on competitive advantage. Gupta (2002) also showed empirical evidence in support of the positive effect of corporate reputation on competitive advantage by successfully differentiating it from competitors. Therefore, according to previous studies, there is a positive relationship between customer satisfaction and corporate reputation, a relationship that finally leads to competitive advantage.

Factoring in this evidence, research findings suggest that CSR, customer satisfaction, reputation, and competitive advantage have a positive effect on firm performance either directly or indirectly. However, available evidence justifies the main axis research in this study which is the probable mediating role that customer satisfaction, reputation, and finally competitive advantage might have on the relationship between CSR and firm performance. Accordingly it is hypothesized that:

H2. CSR and firm performance is a mediated rather than direct relationship.

2.4. Mediating role of customer satisfaction, reputation, and competitive advantage

Rising sophistication of stakeholders and environment, sharp competition, growing demand for corporate transparency and social responsibility have gradually become the new corporate challenges of the 21st century which have caused firms to be increasingly concerned about corporate reputation. It is assumed by Cabral (2012) that a firm's performance depends on its reputation. Corporate reputation is a reflection of the degree to which the public is satisfied that firms are meeting their expectations with their products and services (Brammer & Pavelin, 2006). According to Walsh et al. (2006), and Walsh, Mitchell, and Jackson (2009) reputation is one of the consequences of high customer satisfaction over the long term. Gupta (2002) pointed to the firm's CSR ability as a prerequisite of a company's reputation. This finding supports the popular view in business literature that when customers are faced with parity in product price and quality, they would prefer to choose products from companies that contribute to environmental management practices such as CSR. In this case, firms should be aware that the best way to demonstrate a high level of CSR, and to increase customer satisfaction, is to do all they can to understand stakeholder expectations and to design and implement their CSR accordingly.

Carroll (1979, 2004) believed that improvement in product quality as a socially responsible practice enhances the level of satisfaction. In another study by Alafi and Hasoneh (2012) customer satisfaction is positively affected by CSR. In the wake of improved customer satisfaction, financial benefit will increase through lower customer defection and more repeat businesses because it reduces costs, increases returns, and generates more sales (Bhote, 1996; Galbreath, 2002). Clarkson (1995) also stated that the ability to build a positive reputation followed by increasing customer satisfaction is critical to a firm's survival and performance. Later, some authors (e.g. Davies, Chun, da Silva, & Roper, 2003; Galbreath & Shum, 2012; Walsh et al., 2006, 2009) found that corporate reputation and customer satisfaction are strongly correlated and that customer satisfaction has a positive impact on corporate reputation. Nguyen and Leblanc (2001) also believed that a firm's reputation is a reliable indicator of whether or not a firm's customers are satisfied.

Cabral (2012) later augmented previous studies by adding the variable of sustainable competitive advantage to the final outcome or measure of customer satisfaction and reputation. Previous to that, Matzler and Hinterhuber (1998) also found that corporate reputation gained through long periods of high customer satisfaction is a source of sustainable competitive advantage for firms. They argued that in order to know whether improvements in certain product attributes lead to competitive advantage, it is necessary to compare the customers' perceived product quality with that of competitors' products. If customers are satisfied with perceived product quality, reputation will be the firms' main reward. Davies et al. (2003) also claimed that corporate reputation enables firms to repeatedly attract customers. More satisfied customers means enhanced reputation, more sales growth, more competitive advantage, and finally higher levels of firm performance. All this evidence shows that there is a tripartite relationship between customer satisfaction, reputation, and gaining competitive advantage and that it can be posited that reputation and competitive advantage are influenced by customer satisfaction.

Since CSR is an environment-oriented approach to product/process quality development that supports design teams in developing new products and processes in a structured way based on further ecological protection and assessment of customers' needs and expectations, it could be argued that CSR could not have a direct effect on firm performance, but is fully mediated by customer satisfaction, reputation, and competitive advantage. Therefore, given the previous discussions it is hypothesized that:

H3. In the mediated relationship between CSR and firm performance, competitive advantage and reputation act as the mediating factors via improving customer satisfaction.

3. Methods

3.1. Sample and data collection

In order to select samples and measure CSR, annual reports, Fortune's Most Admired Companies, and Kinder, Lyndenberg and Domini (KLD) ratings have been widely used by studies (e.g. Backhaus, Stone, & Heiner, 2002; Hillman & Keim, 2001; Hull & Rothenberg, 2008; Mattingly & Berman, 2006; Schnietz & Epstein, 2005; Scholtens & Zhou, 2008). While Fortune's Most Admired Companies and KLD are two databases dominated by United State samples, annual report databases also have their own critics (Galbreath & Shum, 2012; Huse, Hoskisson, & Zattoni, 2011; Jarvis, MacKenzie, & Podsakoff, 2003). Since the sample of this study is Iran and there is no wide database such as Fortune's Most Admired Companies and KLD, the survey approach is suitable for gathering data, especially when secondary sources are not available. The related survey, at the first stage, is developed through an extensive literature review. Then, 10 executives who are not included in the sample assessed the content validity. Finally, after making some minor changes, the final and corrected version of survey instrument was prepared. In order to reduce various biases of survey studies, this study undertakes the suggestions of Spector and Brannick (1995), in which we do not prepare any preferred response in questionnaire items; the instrument is kept as short as possible; close attention is paid to wording; and in the survey, independent and dependent variables are placed far apart from each other.

The only firms which are included and relevant to this study are those in industrial manufacturing and consumer products. These sectors are chosen because among different sectors in the market, product and consumer industries have the most influence on the environment and society (Burritt, Schaltegger, Bennett, Pohjola, & Csutora, 2011; de Beer & Friend, 2006; Molina-Azorín, Claver-Cortés, Pereira-Moliner, & Tarí, 2009; Schaltegger, Bennett, Burritt, & Jasch, 2009). 1250 manufacturing and consumer product firms are listed for this study. Top managers are chosen as respondents because they are directly involved in the management of organizational affairs and have first-hand knowledge on organizational improvement processes.

The overall response rate was 16.4%. At first glance, the rate seems low. However, similar response rates have been reported by various CSR scholars who have tried to survey top managers. For instance, in a study carried out by Mishra and Suar (2010) among manufacturing companies in India, only 10% of respondents (top managers) returned the questionnaire. A decade earlier, Spence and Lozano (2000) claimed that the subject matter of CSR is likely to lead to a low response rate. Other researchers, including Maignan and Ferrell (2001) and Simons, Pelled, and Smith (1999) reported response rates in these kinds of studies as low as six percent. From another perspective, Welford (2005) found that response rate is a function of how important the concept of CSR is perceived in each country, so that high response rate in developed countries shows that CSR is an issue on the business agenda, while lower response rates in less developed countries might imply that it is less of an issue among business owners. Later, in response to previous claims, Galbreath and Galvin (2008) and Galbreath and Shum (2012) expressed that a response rate as low as 10%, is acceptable in countries which suffer from a lack of serious survey work on CSR. Therefore, based on the all related evidence, a 16.4% response rate should be sufficient for a developing country such as Iran, where CSR has either not been adequately addressed practically, or its managers do not have a high opinion of CSR. Finally, after removing unusable surveys, only 205 are engaged in the analysis.

Early versus late respondents were compared on all variables in order to test non-response bias. The logic of such testing is that in comparison to early respondents, late respondents are more similar to the broad population. No significant differences between variables in this study are revealed by independent sample *t*-test. It shows that non-response bias is not a problem in this study.

Of the 205 valid responses, 57.7% came from industrial manufacturing firms and 42.3% from the consumer product manufacturing sector. The average age of the firms is 28 and the mean number of employees is 176. The annual sales revenue of the firms ranges between $100,000 and $2,000,000, with 60% of them between $100,000 and $1,000,000.

3.2. Independent variables

Some authors (e.g. Galbreath & Shum, 2012; Montiel, 2008; O'Shaughnessy, Gedajlovic, & Reinmoeller, 2007) state that there is no universal and united method with which to measure CSR. There are two types of data collection; one is based on secondary data, and the other on primary data. The CSR conceptualization presented by Carroll (1979) which has been frequently cited in many studies did not collect secondary data. This instrument consists of four main dimensions of CSR (legal, economic, discretionary, ethical) to determine the firm's CSR orientation. Since the aim of this study is to assess CSR activity and Carroll's (1979) instrument only focuses on the degree of importance of different dimensions of CSR, this instrument is not appropriate for the current study.

The instrument presented by Carroll (1979) was later developed by Maignan, Ferrell, and Hult (1999) and Maignan and Ferrell (2000, 2001). The orientation of Carroll's work was changed from an instrument used to assess the degree to which a firm believes it has social responsibilities or how they rank those responsibilities to an assessment of CSR activity, which is the aim of the current study. According to their claim, the best overall CSR fit as presented by Carroll consists of four correlated factors. In addition, previous studies developed a very inflexible scale and used it in multiple countries and industries. In addition, in an assessment of six competing measurement models, Maignan and Ferrell (2000) found that the model which included all four CSR dimensions (ethical, economic, discretionary, and legal) provided the best overall fit. Therefore, this study selected the CSR measurement used by Maignan et al. to measure firms' perception of each CSR dimension as listed above. A 29 item, 5 point Likert scale was used to cover all four CSR dimensions, where '1 = strongly disagree' and '5 = strongly agree'.

What are the main components, or measures, of corporate reputation? Lloyd and Mortimer (2006) identified image, performance, identity, brand, ethical leadership and management as the six core components of corporate reputation. However, Schwaiger (2004) identified ten components of corporate reputation (employee quality, management quality, financial performance, products and service quality, market leadership, customer orientation or focus, attractiveness or emotional appeal of the organization, social responsibility, ethical behavior, reliability), while Harrison (2009) also identified the same ten components as Schwaiger. Martin de Castro, Navas Lopez, and Saez (2006) identified eight such components, which are innovation, ability to gather, develop, and retain talented people, value of long term investments, social responsibility among the community, use of corporate assets/efficiency, product and service quality, financial strength, and managerial quality.

As can be seen, these components are quite similar to the ones discussed to measure CSR dimensions. Therefore, in order to avoid the problem of cross loading of factors in CSR and reputation measurement in data analysis, the scale developed by Weiss, Anderson, and MacInnis (1999) seems appropriate to measure corporate reputation in the current study, because their developed scale is based on the general perception of a firms' reputation, not on any specific part of reputation. Using a 5 item 5 point Likert scale where "1 = strongly disagree and 5 = strongly agree" firms were asked to determine their customers' perception of their overall reputation based on the following items: 'We are seen by customers as being a very professional organization', 'Our firm is viewed by customers as one that is successful', 'Our firm's reputation is highly regarded', 'Customers view our firm as one that is stable', and 'Our firm is viewed as well-established by customers'.

Andreassen and Lindestad (1998) suggest that customer satisfaction indicators should tap into the construct by addressing an overall evaluation of consumption experiences of a firm. A key component of the relationship between customers and a firm is customer satisfaction (Ping, 1993). Based on Ping's work, Galbreath and Shum (2012) developed four items related to customer expectations and the relationship between customers and the firm. In addition to the initial four suggestions, Galbreath adopted three more items that are commonly used in customer satisfaction researches, resulting in a seven item scale designed to gauge firms' perceptions of the satisfaction of their customers. These seven items cover three main dimensions of customer satisfaction: customer satisfaction with product or service quality, customer satisfaction with value for price, and meeting customer expectations. Balanced Scorecard (BSC) methodology also measures customer perspective as a fundamental aspect of measuring overall firm performance. It measures the customer's perspective through looking at meeting customer expectations, quality of products/services, and increases in the number of customers. This study measured customer satisfaction by asking about three main dimensions (including quality, cost, and meeting customer expectations) that are normally adopted in customer satisfaction investigation by scholars (Choi & Eboch, 1998; Galbreath, 2010; Homburg & Rudolph, 2001; Kaplan & Norton, 1996). The related questionnaire was designed with seven items to determine perceptions of degree of satisfaction of customers by participant companies. All items employ five-point scales anchored by "strongly dissatisfied" (1), and "strongly satisfied" (5).

Chang (2011) derived six items for measuring competitive advantage based on Barney (1991), Coyne (1986), and Porter and van der Linde (1995). Chang (2011) measured competitive advantage by the degree of a firms' managerial capability, profitability, corporate image, quality of products or services, and difficulties faced by competitors in replacing the company's competitive advantage. Chen, Lai, and Wen (2006) considered cost of products/services, company growth, and being the first mover in some important fields in measuring competitive advantage. Bataineh and Zoabi (2011) in their study about the effects of intellectual capital on competitive advantage employed eight items for measuring competitive advantage level. These items include leadership strategy, position in the market, resources and capabilities of the business, generating customer value, identifying its relevant competitors, differentiation strategy, service flexibility, and speed of offering services. Competitive advantage was measured by Flynn, Sakakibara, and Schroeder (1995) through measuring five effective items in gaining competitive advantage. Dunk (2007) also used Flynn et al.'s (1995) instrument to examine the effect of product quality on competitive advantage. Those five items include unit cost of manufacturing, fast delivery, flexibility to change volume, inventory turnover, and cycle time (from receipt of materials to shipment). Based on the literature, quality of products or services, corporate image, market position, differentiation and diversity, growth of the company, and market leadership are the most commonly used dimensions in measuring competitive advantage among mentioned scholars. Therefore, this study employed these items as dimensions for measuring competitive advantage level of participant firms based on managers' perception in five items with five-point Likert scales, where 1 = "strongly disagree" and 5 ="strongly agree".

3.3. Dependent variable

Firm performance as the sole dependent variable in this study will be measured through seven items which are related to financial performance in Balanced Scorecard (BSC) methodology. Developed by Robert Kaplan and David Norton in 1992 the Balanced Scorecard methodology is a comprehensive approach that analyzes an organization's overall performance in four ways. Measuring financial perspective in firm performance is one of the dimensions in this methodology. Since this study chooses to adopt market share growth and growth in sales as the growth determinant, and Return on Equity (ROE), Return on Sales (ROS) Return on Assets (ROA), Return on Investment (ROI), and net profit margin of the firm as monetary accounting performance constructs, BSC could be the best instrument to measure financial performance. The respondents were asked to compare themselves with competitors and then select the appropriate option about their firms on a 5 point Likert scale where 1 = "strongly disagree" and 5 = "strongly agree".

3.4. Control variables

There are different ideas about the effect of firm's size, age and revenue on the relationship between CSR and firm performance (see, Galbreath & Shum, 2012; Lee, Faff, & Langfield-Smith, 2009; Orlitzky et al., 2011; Webb, 2004; Weber, 2008). Therefore, this study considers firm size, age, and sale revenue as control variables. Each control variable is measured with only a single question. Questions which address firm age and firm size are related to the number of years in business and the number of full time employees, respectively.

4. Analysis and results

Mean and standard deviation (SD) as well as correlations are shown in Table 1. According to Table 2, assessed levels of goodness of fit index (GFI), comparative fit index (CFI), and root mean square (RMR) that should be more than 0.9 for GFI and CFI, and less than 0.05 for RMR were in an acceptable range. Confirmatory factor analysis (CFA) through SPSS is conducted by this study in order to evaluate the constructs' psychometric properties.

Sekaran (2003) and Hair, Money, Samouel, and Page (2007) opined that an alpha value of less than 0.6 is seen as a weak reliability while an alpha value of more than 0.7 is viewed as strong and better. Cronbach's alpha value of a group of constructs which is calculated in Table 2 for

Table 1
Descriptive statistics and correlation for continuous variables.

Variable	Mean	SD	Min	Max	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1. Firm size	176.23	108.16	16	305	1.00																
2. Firm age	28.40	81.07	8.00	63.00	0.12	1.00															
3. Firm sale revenue	2.39	5.65	1.26	8.98	0.08	0.13	1.00														
4. Ethical dimension of CSR	4.28	0.53	1.50	4.80	0.11	0.07	0.39	1.00													
5. Economic dimension of CSR	3.87	0.59	1.00	3.70	0.09	0.03	0.55	0.11	1.00												
6. Discretionary dimension of CSR	3.07	0.71	1.54	4.20	0.03	0.01	0.39	0.39	0.40	1.00											
7. Legal dimension of CSR	3.98	0.63	1.20	4.50	0.10	0.04	0.46	0.58	0.38	0.41	1.00										
8. Reputation	4.12	0.59	1.86	4.87	−0.10	−0.04	0.16	0.38	0.43	0.37	0.34	1.00									
9. Customer satisfaction	3.89	0.55	1.00	4.49	0.01	0.02	0.39	0.41	0.39	0.46	0.43	0.63	1.00								
10. Competitive advantage	4.76	0.59	1.32	5.00	0.07	0.09	0.56	0.52	0.48	0.32	0.49	0.69	0.59	1.00							
11. Return on Equity (ROE)	3.87	0.92	1.00	4.21	0.18	−0.15	0.17	0.14	0.28	0.18	0.17	0.43	0.32	0.45	1.00						
12. Return on Investment (ROI)	3.56	0.96	1.66	4.13	0.08	0.15	0.19	0.09	0.28	0.16	0.11	0.39	0.34	0.52	0.50	1.00					
13. Return on Assets (ROA)	3.41	0.94	1.00	4.32	0.14	−0.08	0.26	0.14	0.18	0.09	0.23	0.41	0.42	0.49	0.53	0.86	1.00				
14. Return on Sale (ROS)	3.78	0.93	1.83	4.00	0.16	−0.16	0.31	0.08	0.29	0.15	0.15	0.33	0.37	0.36	0.56	0.73	0.53	1.00			
15. Sale growth	3.66	0.97	1.37	4.46	0.11	−0.14	0.13	0.14	0.3	0.12	0.16	0.48	0.41	0.43	0.29	0.66	0.43	0.53	1.00		
16. Market share growth	3.76	0.91	1.00	4.18	0.22	0.14	0.17	0.11	0.34	0.2	0.12	0.42	0.35	0.37	0.28	0.49	0.34	0.41	0.63	1.00	
17. Net profit margin	3.50	0.99	1.54	4.43	0.18	−0.19	0.07	0.09	0.16	0.10	0.15	0.32	0.27	0.42	0.39	0.53	0.56	0.52	0.69	0.62	1.00

Correlations ≥.13 are significant at $p < 0.05$.

internal consistency as well is near to 1.0, which means that the reliability is good (Sekaran, 2003).

Therefore, sufficient reliability was demonstrated for all constructs, as all were greater than the benchmark of 0.70. Furthermore, the standardized factor loading was significant in this study ($p < 0.05$). It reveals that convergent validity is supported for all the measurement items (CSR, customer satisfaction, reputation, and competitive advantage). In addition to convergent validity, discriminant validity is supported as well.

In firm performance measurement, nearly 70% of the variation was explained by ROA and ROE in factor analysis test. ROA is positively related to the stock price. A greater ROA and ROE indicate greater value creation for financial investors (Berman, Wicks, Kotha, & Jones, 1999; McGuire, Sundgren, & Schneeweis, 1988). ROA for firms and ROE for investors and stockholders are the most important ratios in measuring performance of a firm.

The findings of the current study about the effects of control variables are consistent with those (e.g. Galbreath & Shum, 2012; Lee et al., 2009; Orlitzky et al., 2011; Webb, 2004) who confirmed the lack of influence of these variables in studies of CSR. According to Rowley and Berman (2000) and Galbreath and Shum (2012), structural equation modeling (SEM) is more appropriate than traditional regression analysis in CSR research. Iacobucci, Saldanha, and Deng (2007) also in their study claim that the SEM technique is the superior method on both theoretical and empirical statistical grounds. Urbach and Ahlemann (2010) explained that the SEM is a second-generation statistical technique, which simultaneously tests the causal relationship between multiple dependent variables and independent variables as opposed to the first generation techniques like factor analysis, discriminate analysis and multiple regressions, which cannot. They also claim that the SEM is considered better than the traditional regression because it can reduce bias by taking measurement errors into account. In addition, Iacobucci et al. (2007) proved empirically that SEM approaches consistently will be more powerful in detecting a mediation result than regression approach. Therefore, SEM was found as a proper statistical analysis technique for this study.

In order to test hypotheses, Baron and Kenny's (1986) procedure is employed. They discussed four steps in establishing mediation. First, a significant relation of the independent variable to the dependent variable is required. Second, a significant relation of the independent variable to the hypothesized mediating variable is required. Third, the mediating variable must be significantly related to the dependent variable. Fourth, to establish that the mediating variable completely mediates the relationship, the effect of independent on dependent variable should be no longer significant.

According to these four steps, the results gained from the first model (CSR-firm performance relationship) show that there is a positive and significant relationship between CSR and firm performance with path coefficient of 0.15 ($p < 0.001$), and the basic fits (CFI = 0.921; GFI = 0.951; RMR = 0.035). Therefore, followed by meeting the first condition of establishing mediation, hypothesis one is supported as well.

After entering the mediators and running the second model to test H2 and H3, it was revealed that there is a significant relationship between CSR and mediation variables, and between mediation variables and firm performance. It is worth noting that there is no longer a significant relationship between CSR and firm performance (CFI = 0.908; GFI = 0.939; RMR = 0.031). It shows that the CSR and firm performance relationship is a fully mediated relationship through contribution of CSR to firm performance via better reputation and competitive

Table 2
CFA analysis results.

Variable	Mean	SD	Internal consistency	Cronbach's alpha	GFI	CFI	RMR
CSR					0.92	0.93	0.04
Ethical	4.28	0.53	0.74	0.72			
Economic	3.87	0.59	0.78	0.82			
Discretionary	3.07	0.71	0.77	0.79			
Legal	3.98	0.63	0.80	0.83			
Reputation	4.12	0.59	0.90	0.90	0.96	0.97	0.02
Customer satisfaction	3.89	0.55	0.88	0.86	0.98	0.96	0.01
Competitive advantage	4.76	0.59	0.85	0.87	0.96	0.97	0.01

Table 3
Main effects of variables (unstandardized beta values).

	Estimate	S.E.	C.R.	p
Customer satisfaction ← CSR	0.678	0.076	8.921	***
Reputation ← customer satisfaction	0.382	0.067	5.701	***
Reputation ← CSR	0.411	0.081	5.074	***
Competitive advantage ← reputation	0.548	0.072	7.611	***
Competitive advantage ← CSR	0.457	0.065	7.030	***
Firm performance ← CSR	−0.031	0.102	−0.304	0.86
Firm performance ← customer satisfaction	−0.121	0.135	−0.896	0.72
Firm performance ← reputation	0.709	0.123	5.764	***
Firm performance ← competitive advantage	0.822	0.103	7.980	***
Ethical ← CSR	1.142	0.128	8.921	***
Economic ← CSR	1.173	0.131	8.954	***
Legal ← CSR	1.060	0.109	9.724	***
Discretionary ← CSR	1.000			

*** $p < 0.001$.

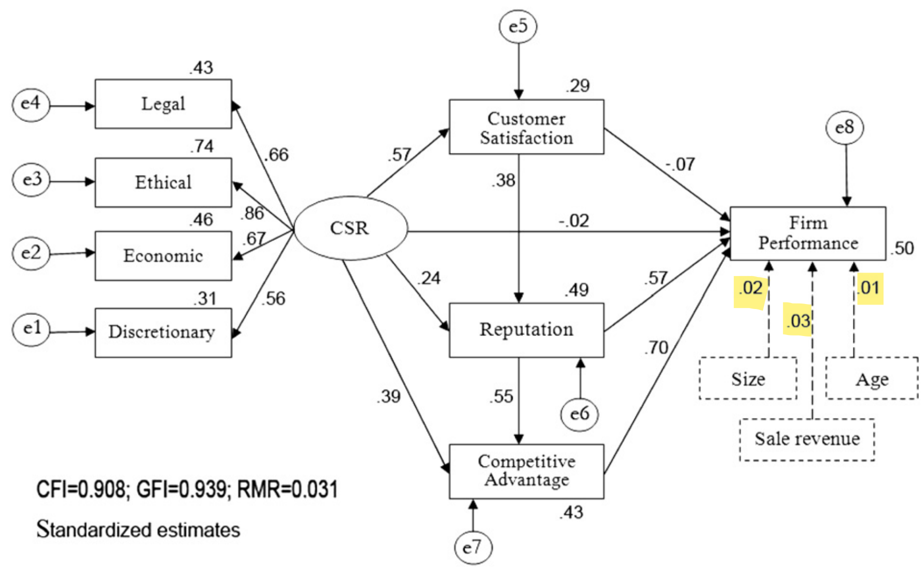

Fig. 1. Framework and main effects test (standardized beta values).

advantage followed by higher level of customer satisfaction. Accordingly, H2 and H3 are also supported. (Table 3 and Fig. 1). It is worth noting that all gained outputs in Table 3 (as the last step in the path model to justify mediation effects) are based on unstandardized estimates, while all the relations shown inFig. 1 are estimated by the standardized beta values.

The obtained outputs in Table 3 approve the full mediated relationship. According to Baron and Kenny's (1986) steps to establish a mediated relationship, there is a significant relationship between CSR as the independent variable and customer satisfaction, reputation, and competitive advantage as hypothesized mediating variables (meeting second step). Reputation and competitive advantage through customer satisfaction are predictors of the dependent variable (meeting third step). The final condition for demonstrating mediation has also been met, because the relationship between CSR and firm performance in the final model is no longer significant than the direct effect model.

The mediator may be caused by the dependent variable, which is commonly called a feedback model. Under the Baron and Kenny definition, the feedback model would also qualify as mediation, which is called "reverse mediation". In reverse mediation, the partial correlation between dependent and independent variables would be zero when statistically controlling for their relationships with mediator (see Baron & Kenny, 1986; Iacobucci et al., 2007). After running the reversed mediation model (dependent → mediator → independent), the model fits are as follows: CFI = 0.886; GFI = 0.918; RMR = 0.052. Although two fit indices are close together, there is a slight advantage in the classic mediation model (CFI = 0.908; GFI = 0.939; RMR = 0.031) because it has a slightly better dominance of model fit than the reverse model. Therefore, the classic path model is preferred to the reverse path model in this study.

5. Discussion and conclusion

Unaware that there is no direct relationship between CSR and firm performance, many studies attempted to examine this relationship directly. Some positive relationships were found (e.g. Maignan, Ferrell, & Ferrell, 2005; Margolis & Walsh, 2003; Maron, 2006; Orlitzky et al., 2003; Stanwick & Stanwick, 1998; Waddock & Graves, 1997; Wu, Tsai, Cheng, & Lai, 2006), while others were found to be negative or neutral (e.g. ACCA, 2009; Aupperle et al., 1985; Bromiley & Marcus, 1989; Teoh, Welch, & Wazzan, 1999; Wright & Ferris, 1997). These studies did not clarify how CSR can be associated with firm performance positively, negatively, or neutrally. Only a few studies mentioned and applied contingency approach in examining this relationship (e.g. Galbreath & Shum, 2012; Luo & Bhattacharya, 2006; Margolis & Walsh, 2003; Margolis et al., 2008; Rowley & Berman, 2000). Branco and Rodrigues (2006) also claimed that for analyzing the real effects of CSR on financial benefits, omitted mediators and moderators should be applied. Therefore, based on these rational and logical claims and existence of this gap, this study used three associated variables (customer satisfaction, reputation, competitive advantage) as mediators to show why and how CSR influences firm performance positively. According to the findings, better reputation and competitive advantage are consequences of increased customer satisfaction after engaging in CSR.

Since the main goal of businesses is to achieve a higher level of financial benefits, gaining a sustainable competitive advantage plays a crucial role in achieving this fundamental aim (Ma, 1993; Majeed, 2011). In this way, the goal of many business strategies is to achieve a sustainable competitive advantage. As one of these business strategies, CSR attempts to build a good position for firms in an extremely competitive market (ACCA, 2009). Higher level of competitive advantage enables the firm to create superior value for its customers (Dunk, 2007). In turn, creating superior value for customers and achieving higher level of customer satisfaction create superior profits for itself through offering high quality of products and services at lower cost (Chi & Gursoy, 2009; Loveman, 1998; Roger, 1996; Simon, Gómez, McLaughlin, & Wittink, 2009; Williams & Naumann, 2011). Therefore, it could be claimed that CSR comes along with financial benefits through gaining a higher level of competitive advantage for firms. According to Post and Altman (1992) and Billing and Scott (1995) organizations that address environmental issues can affect the marketability of their products and their competitive position as well as their financial performance.

Previous studies on the relationship between CSR and firm performance omitted sustainable competitive advantage as an important mediator in this relationship. For example, Luo and Bhattacharya (2006) and Alafi and Hasoneh (2012) only considered customer satisfaction as a mediator in this relationship. The findings showed that customer satisfaction mediates the relationship between CSR and financial performance. Later Galbreath and Shum (2012) criticized the work of Luo and Bhattacharya (2006) for ignoring reputation as one of the main consequences and indices of measuring the level of customer satisfaction in examining the relationship between CSR and firm performance. Therefore, Galbreath and Shum (2012) tried to fill up this gap by adding reputation in addition to customer satisfaction as mediators. Their results showed that CSR is linked to both reputation and customer satisfaction, but only reputation mediates the relationship between CSR and firm performance. This study does not seem to be complete, because it ignores competitive advantage which is the main goal of firms' efforts to be reputatable. Majeed (2011) linked competitive advantage and firm performance and found that firms with higher level of competitive advantage have higher level of performance. Weber (2008), Wood (2010), and Galbreath and Shum (2012) claimed that CSR provides many potential benefits, not just a single intangible benefit such as customer satisfaction. Accordingly, it was assumed in this study that engagement in CSR affects customer satisfaction, reputation, and sustainable competitive advantage positively. Actually, the findings support all three hypotheses of this study. So that: (1) CSR is associated with firm performance; (2) the association between CSR and firm performance is a fully mediated relationship; and (3) reputation and competitive advantage followed by higher customer satisfaction are mediators in the relationship between CSR and firm performance.

Despite evidence that shows CSR has never been adequately addressed in the Iranian business and academic environment (Chapardar & Khanlari, 2011), and level of firms' stakeholders expectation of CSR is higher than the actual level of CSR practiced by firms (Salehi & Azary, 2009), these results are consistent with those of other studies carried out mainly in developed countries that found positive effect of CSR. The findings from this study make several contributions to CSR domain. In addition to knowledge contribution, it makes a practical contribution. Knowledge is contributed through overcoming some of the ambiguity surrounding the relationship between CSR and firm performance and extending CSR literature by providing a framework that helps to explain how CSR might be linked with firm performance. From a practical viewpoint, according to Papagiannakis and Lioukas (2012) managers' values, attitudes and perceptions play a significant role in a firm's environmental response, especially now that the environmental concerns of stakeholders have increased. Therefore, the findings enhance the knowledge of Iranian firms' executives about the importance of the role of CSR as a strategy that creates intangible assets such as sustainable competitive advantage, reputation, and customer satisfaction. Taken together, these findings suggest a role for CSR in promoting firm performance indirectly through enhancing customer satisfaction, reputation and competitive advantage.

6. Limitations and recommendations

Since this study has focused only on Iranian manufacturing and consumer industries, and was cross-sectional, further studies with a focus on service industries or the same industries over time need to be done. In addition, it is recommended that future studies on the current topic are to be done in other developing countries, because the results might not be extendable to other countries. The results gained from different industries and countries could then be compared. Identifying barriers which hinder Iranian and other developing countries' firms from implementing CSR strategies might be another important issue for future research to improve CSR literature.

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