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A Study of Management Perceptions of the Impact of Corporate Social Responsibility on Organisational Performance in Emerging Economies: The Case of Dubai

Belaid Rettab
Anis Ben Brik
Kamel Mellahi

ABSTRACT. Although a number of studies have shown that corporate social responsibility (CSR) activities often lead to greater organisational performance in western developed economies, researchers are yet to examine the strategic value of CSR in emerging economies. Using survey data from 280 firms operating in Dubai, this study examines the link between CSR activities and organisational performance. The results show that CSR has a positive relationship with all three measures of organisational performance: financial performance, employee commitment, and corporate reputation. These results reinforce the accumulating body of empirical support for the positive impact of CSR on performance and challenge the dominant assumption that, given the weak institutional framework in emerging economies, CSR activities drain resources and compromise firms' competitiveness.

KEY WORDS: corporate social responsibility, organisational performance, emerging economies, United Arab Emirates

Over the years, an enormous body of literature has emerged concerning the link between corporate social responsibility (CSR) initiatives and organisational performance (Margolis and Walsh, 2003; McWilliams et al., 2006). Although extant research has made some headway in understanding the association between CSR and organisational performance, it suffers from at least two important limitations that we seek to address in this paper. First, extant research on the impact of CSR on organisational performance has focused exclusively on western developed economies. To date, scholars have not examined the strategic value of CSR in emerging economies. The limited body of research on CSR in emerging economies has focused almost exclusively on corporate citizenship, corporate irresponsibility, and motives for CSR in these countries (Blowfield and Frynas, 2005; Frynas, 2005; Pedersen and Huniche, 2006). While these studies are valuable, they do not inform us of the strategic value of CSR in these countries. In this paper, we aim to close this gap by focusing on the strategic value of CSR in emerging economies, using firm-level data collected from firms operating in Dubai. Given that firms in emerging economies are embedded in different business systems from those of western firms, research on the association between CSR and organisational performance in emerging economies is warranted (Aguilera et al., 2007; Campbell, 2006). Compared with those in western countries, institutional legal frameworks in emerging economies are not yet well developed, which can limit the extent to which firms can benefit from their CSR efforts. In addition, an extensive body of literature argues that managerial values and attitudes towards CSR in a given institutional context are likely to have a strong influence on the outcomes of such initiatives (Aguilera et al., 2007; Frynas, 2005; Hay and Gray, 1974; Hemingway and Maclagan, 2005; Pedersen and Huniche, 2006; Vitell and Paolillo, 2004). In this paper, we focus specifically on fast developing regions in emerging economies. Fast developing regions are quickly growing commercial and industrial hubs within emerging economies that have achieved high economic growth rates. We emphasise the focus on fast developing regions because we believe that there are significant differences between regions within emerging economies in terms of economic growth, business environments, income levels, and management practices. Although differences between regions do exist in developed economies, we believe these differences are more prominent in emerging economies. For instance, there are considerable differences between Dubai and the rest of UAE in the way the Dubai economy is run, the magnitude of economic and social changes, the level of internationalisation of business activities, the intensity of competitive environment, and the dominant aggressive business and management culture.

Second, although researchers have provided convincing arguments for the potential strategic benefits of CSR activities, scholars have not reached a consensus on whether or not, and how, CSR affects organisational performance (Husted and Allen, 2007; Margolis and Walsh, 2003; Orlitzky et al., 2003). They disagree, for example, as to whether CSR has a positive or a negative impact, or a neutral impact on organisational performance (Margolis and Walsh, 2001; McWilliams and Siegel, 2000; Orlitzky et al., 2003; Wright and Ferris, 1997). A number of scholars have argued that the lack of consensus is due partly to the use of questionable measures of organisational performance (Carroll, 1991; Griffin and Mahon, 1997; Waddock and Graves, 1997; Wokutch and McKinney, 1991). In particular, scholars highlight the limitations of single measures of performance (Egri et al., 2004) and over-reliance on financial performance that, in isolation, does not capture the full impact of CSR on the firm's overall performance (Husted and Allen, 2007). In this study, we address this issue with three measures of organisational performance: the oft-used financial performance measure, as well as employee commitment and corporate reputation.

This study is important for two reasons. First, while the study of the relationship between CSR and organisational performance is important in its own right regardless of firms' location, it is of particular relevance in fast developing regions of emerging economies given the immense impact that firms located in these regions have on the environment because of the high level of energy they need. Indeed, Parry et al. (1998, p. 741) noted that "most future growth in emissions is expected to occur in the fast-developing regions of Asia and Latin America". In addition, firms operating in these regions may resort to unethical practices because of pressure to achieve short-term financial results and sustain a global competitive edge. Second, as stated above, although the association between CSR and firm performance has been extensively debated, it is still not well understood. In this paper, we refine the stream of research on the association between CSR and organisational performance by moving from the broad question of whether CSR has an impact on performance to a study of the association of CSR with three specific aspects of organisational performance: financial performance, employee commitment, and corporate reputation.

The remainder of the paper is structured as follows. We begin this study by reviewing extant literature on the relationship between CSR and organisational performance. We then propose a set of hypotheses pertaining to the nature of the impact of CSR on organisational performance in emerging economies. Next, we discuss the measures used in the study and describe the data collection method. We then report the results of the survey that tests the hypotheses. We conclude by discussing the findings, highlighting the key limitations of the study, and providing guidance for further research.

Literature review and research framework

CSR and organisational performance

Significant efforts have been made to understand the impact of CSR activities on organisational performance (Griffin and Mahon, 1997; Husted and Allen, 2000; Husted and Salazar, 2006; Marom, 2006; McWilliams and Siegel, 2001; Moneva et al., 2007; Orlitzky et al., 2003; Salzman et al., 2005; Schuler and Cording, 2006; Swanson, 1995, 1999; Waddock and Graves, 1997; Windsor, 2001; Wood, 1991; Wood and Jones, 1995; Wright and Ferris, 1997). Our review of some of the key studies on the relationship between CSR and organisational performance indicates positive, negative, mixed, or non-significant results (see Table I). The review shows that while a number of studies reported a negative relationship (Vance, 1975), or no significant relationship (Aupperle et al., 1985; Davidson and

TABLE I

Relationship between corporate social responsibility and financial performance

Study	Corporate social responsibility	Financial performance
	Measure	
Positive relationship		
Bowman (1976)	Disclosure of social responsibility	
Clarkson (1988)	Ratings of charity, community relations, customer relations, environmental practices, human resource practices, and org. structure based on case studies	
Cottrill (1990)	Fortune reputation rating	
Dooley and Lerner (1994)	Toxics Release Inventory (TRI): An annual report of releases of more than 600 toxic chemicals by U.S. facilities	**Accounting**
Fry et al. (1982)	Charitable contributions	
Galaskiewicz (1997)	Charitable contributions	
Griffin and Mahon (1997)	Fortune reputation rating, Kinder, Lydenberg, Domini (KLD) evaluation, charitable contributions, pollution control	
Levy and Shatto (1980)	Charitable contributions	
Markus and Goodman (1986)	Compliance with emissions regulations	
Nehrt (1996)	Timing and intensity of pollution-reducing technologies	
Porter and van der Linde (1995)	Waste prevention practices	
Preston and O'Bannon (1997)	Fortune reputation rating	
Russo and Fouts (1997)	Franklin Research and Development Corporation (FRDC) ratings of environmental practices	
Waddock and Graves (1997)	Kinder, Lydenberg, Domini (KLD) evaluation	
Cottrill (1990)	Fortune reputation rating	
Ingram (1978)	Disclosure of social responsibility	**Market**
Klassen and McLaughlin (1996)	Environmental awards and crises	
Newgren et al. (1985)	Environmental practices	
Brown and Perry (1994)	Fortune reputation rating	
Dowell et al. (2000)	Investor Responsibility Research Center (IRRC) evaluation of environmental performance	**Accounting and Market**
Graves and Waddock (2000)	Kinder, Lydenberg, Domini (KLD) evaluation	
Judge and Douglas (1998)	Environmental practices	
McGuire et al. (1988)	Fortune reputation rating	
Mills and Gardner (1984)	Disclosure of social performance	
Riahi-Belkaoui (1991)	Fortune reputation rating	
Verschoor (1998)	Commitment to ethics in annual report	
Verschoor (1999)	Statement of an ethics code in annual report	
Negative relationship		
Meznar et al. (1994)	Withdrawal from market	**Market**
Vance (1975)	Moskowitz ratings of social responsiveness	

TABLE I

continued

Measure		
Study	Corporate social responsibility	Financial performance
Wright and Ferris (1997)	Divestment	
Mixed relationship		
Berman et al. (1999)	Kinder, Lydenberg, Domini (KLD) evaluation	**Accounting**
Bowman and Haire (1975)	Disclosure of social performance	
Graves and Waddock (1997)	Kinder, Lydenberg, Domini (KLD) evaluation	**Market**
Johnson and Greening (1999)	Kinder, Lydenberg, Domini (KLD) evaluation	**Accounting and Market**
Hillman and Keim (2001)	Kinder, Lydenberg, Domini (KLD) evaluation	
Blackburn et al. (1994)	Ratings of Council on Economic Priorities (CEP)	
Cochran and Wood (1984)	Moskowitz ratings of social responsiveness	
Lerner and Fryxell (1988)	Ratings of Council on Economic Priorities (CEP)	
McGuire et al. (1990)	Fortune reputation rating	

Worrell, 1990; McGuire et al., 1988; Preston, 1978; Spicer, 1980) between CSR and organisational performance, the bulk of studies reported a positive relationship (Abott and Monsen, 1979; Bragdon and Marlin, 1979; Graves and Waddock, 1994; Moskowitz, 1972; Spencer and Taylor, 1987; Waddock and Graves, 1997).

Pava and Krausz's (1995) comprehensive review of empirical studies of the relationship between CSR and organisational performance found that, overall, firms perceived as having met social responsibility criteria have either outperformed or performed as well as other firms that are not necessarily socially responsible. Such positive relationship has also been supported by a recent meta-analysis of the relationship between CSR and organisational performance (Orlitzky et al., 2003). However, as noted above, one cannot generalise the above findings from western developed economies to emerging economies without further research. Business system theory (Whitley, 1992) holds that countries have different business systems. Therefore, it stands to reason that in order to hypothesise a relationship between CSR and organisational performance in emerging economies it is important to understand the institutional and managerial characteristics of these economies. The institutional environment in fast developing economies like Dubai is driven by policies that promote high economic growth and international competitiveness, but if not properly managed, may lead to social inequality, poor labour practices, and enormous environmental damage.

Dubai has sustained a period of rapid growth during the last three decades, moving from an obscure semi-nomadic emirate to a global commercial hub that has recently built up significant competitive advantages. Dubai's growth has been prompted by two main factors. The first is ambitious and visionary leadership, and the second is an aggressive open market strategy. The fast growth in the economy, generated by extensive factor inputs, has resulted in unequal welfare distribution and unlimited market opportunities that created high incentives for opportunistic behaviour. Business media are replete with anecdotal examples of unscrupulous firms resorting to socially irresponsible practices to achieve high profits at the expense of employee welfare, customer safety, and the environment. These practices range from mistreatment of workers to dishonesty with customers. Scholars argue that the weak enforcement of laws and regulations gives the impression that firms can get away with socially irresponsible actions (Mellahi, 2007). Although the government introduced a number of laws to regulate firms' conduct, much hinges on the institutional capacity to monitor and enforce regulations (Mellahi, 2007; North, 1990).

A number of scholars (Campbell, 2006; Galaskiewicz, 1991; Mellahi, 2007) argue that while negative sanctions enforced through regulation may constrain and discourage firms from acting in a socially irresponsible manner, adherence to socially responsible behaviour develops from the presence of supportive institutions such as business and industrial associations that are able to mobilise and entice firms to subscribe voluntarily to CSR. Thus, in spite of the will of political actors in most emerging economies such as China, India, and UAE to promote CSR initiatives to mitigate harmful consequences of fast economic growth on pollution, customer protection, and labour practices, CSR remains a low priority in these countries compared with western developed countries. Further, there is a lack of favourable institutions conducive to the practice of CSR. For instance, absence of non-governmental institutions and social associations capable of raising social expectations and exerting pressure on firms does not motivate firms to adopt CSR activities. Below we hypothesise the relationship between CSR and financial performance, CSR and employee commitment, and CSR and corporate reputation.

CSR and financial performance

Financial performance is one of the most studied indicators of the strategic value of CSR (Orlitzky et al., 2003). Margolis and Walsh's (2001) meta-analysis found that 55% of the 160 studies examined identified a positive relationship between CSR and financial performance, 22% reported no relationship, 18% found a mixed relationship, and 4% a negative relationship. Orlitzky et al. (2003) conducted another meta-analysis and found similar results. These studies lend credence to the widely accepted notion that being socially responsible would, in most cases, improve a firm's financial performance. Indeed, Aguilera et al. (2007) recently called for closure of the debate on the relationship between CSR and financial performance, arguing that there is overwhelming evidence of a positive and significant association between the two.

A number of arguments and rationales have been advanced as to why CSR has a positive impact on financial performance (Allouche and Laroche, 2006). One of the prominent arguments is that the ways in which a firm satisfies its stakeholders and communicates CSR activities to stakeholders can affect its financial performance. Orlitzky et al. (2003, p. 405) noted that "the satisfaction of various stakeholder groups is instrumental for organisational financial performance". Therefore, one could argue that in emerging economies, the link between CSR and a firm's financial performance is contingent on stakeholders' perceptions of and subsequent reactions to CSR efforts. Stakeholders' reaction to CSR efforts is mediated by the availability and intensity of information on CSR initiatives and preferences of stakeholders relative to available alternatives (Schuler and Cording, 2006). Hartman et al. (2007) argued that notwithstanding the motivation for the engagement, firms must ultimately communicate their rationale for CSR engagement to stakeholders.

Overall, firms in emerging economies do not appreciate the critical importance of communicating their CSR activities to stakeholders (Foo, 2007; Wright et al., 2003). In the case of Dubai, factors contributing to ineffective engagement with stakeholders and lack of communication of CSR activities include the following:[1] lack of effective communication channels with stakeholders; failure to manage stakeholders strategically or to make stakeholder management an organisational priority among firms with a monopoly position in the UAE market; difficulty in communicating with stakeholders because of the diversity of interests and cultural backgrounds of stakeholders (temporary migration in Dubai exceeds 80% of the local population); and inability to build long-term relationships and trust because of high turnover of managers and employees resulting from a turbulent labour market.

These factors minimise stakeholders' needs and result in reluctance of firms to engage in CSR activities that might be perceived as having little benefit for stakeholders. Further, because of the lack of communication platforms to disseminate information about CSR activities, CSR efforts often go unnoticed and are largely unknown to stakeholders and subsequently may not have an impact on performance. Further, Mellahi and Wood (2003) argued that because stakeholders are often not aware of CSR activities in emerging economies, CSR activities may even have a negative impact on financial performance. Foo (2007) argued that CSR puts social constraints on firms that may be in conflict with the pursuit of financial gains.

While the above discussion suggests that firms in emerging economies may not be rewarded for their CSR initiatives even when they take serious steps towards CSR, we argue that stakeholders do not react negatively towards firms that engage in CSR activities for two key reasons. First, based on the above discussion, one would assume that in emerging economies stakeholders are not fully aware of firms' CSR activities and therefore firms will not be rewarded *or punished* for their CSR efforts. Second, as a consequence of the strong economic growth, most firms have ample resources at their disposal to divert to SCR activities. Therefore, on balance one could argue that firms are able to engage in CSR activities without damaging their financial health but also without reaping rent-like advantages from their CSR initiatives (Schuler and Cording, 2006). Based on the above, we propose the following hypothesis.

H1: CSR is not positively related to financial performance in emerging economies.

CSR and employee commitment

Broadly defined, employee commitment refers to ''the extent to which a business unit's employees are fond of the organisation, see their future tied to that of the organisation, and are willing to make personal sacrifices for the business unit'' (Jaworski and Kohli, 1993, p. 60). Aguilera et al. (2007) noted that employees make judgments about their employer's CSR efforts based on their observations of the firm's CSR actions, outcomes of the CSR actions, and the handling of the implementation process. The authors posit that ''socially responsible or irresponsible acts are of serious consequences to employees'' (p. 843). A number of studies have explored the link between CSR and employee commitment (Albinger and Freeman, 2000; Backhaus et al., 2002; Greening and Turban, 2000; Maignan et al., 1999; Peterson, 2004; Turban and Greening, 1997). Overall past research shows that a firm's social responsibility actions matter to its employees (Albinger and Freeman, 2000; Backhaus et al., 2002; Greening and Turban, 2000; Peterson, 2004; Turban and Greening, 1997), and tend to have a positive impact on employees' commitment. Branco and Rodrigues (2006) reported that firms perceived to have a strong social responsibility image often have an increased ability to attract better job applicants, retain them once hired, and maintain employee morale. Similarly, Maignan et al. (1999) posited that firms that engage in CSR activities are likely to enjoy enhanced levels of employee commitment for two main reasons: (1) they are dedicated to ensuring the quality of workplace experiences, and (2) they address social issues – such as the protection of the environment or the welfare of the community – that are of concern to society in general and therefore also to employees.

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

H2: CSR is positively related to employee commitment in emerging economies.

CSR and corporate reputation

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

The link between CSR and corporate reputation in emerging economies is not straightforward. Contrary to employee commitment where employees are able to observe their firms' CSR activities, the impact of CSR on corporate reputation, in the eyes of different but mostly external stakeholders, is shaped by how the firm communicates its CSR activities and how its activities are reported in the national media and other communication mediums. Branco and Rodrigues (2006) noted that when firms are able to demonstrate, by communicating effectively with a wide range of stakeholders, that they operate in accordance with social and ethical criteria, they can build a positive reputation, whereas failing to do so can be a source of risk to their reputation.

As discussed earlier, the two pre-conditions for CSR to have an impact on corporate reputation – ability to communicate the strategy to key stakeholders and media interest in the topic – are not always available to firms operating in emerging economies. The lack of skills and traditions in communicating internal activities such as CSR initiatives to outsiders in emerging economies impedes firms' ability to inform their stakeholders about their CSR activities. This limits the firm's ability to influence stakeholder perceptions in order to boost its corporate reputation. Further, CSR is not yet an established topic in emerging economies; therefore, the media may not give firms engaged in CSR initiatives the required space to help them generate public goodwill that could ultimately translate into an attractive corporate reputation. We propose that because of the lack of visibility of CSR activities in emerging economies, CSR will not have an impact on corporate reputation. We thereby advance the following hypothesis:

H3: CSR is not positively related to corporate reputation in emerging economies.

Data collection

Data on CSR practices in the UAE were collected through a survey of organisations based in Dubai. The survey was designed in English, because English is the language of business communication in Dubai. We collected all the data via the survey because, unfortunately, reliable objective data of any kind is hard to come by in the UAE, and given the poor reliability of most official data, we believe the best data that can be collected and used is perception data. Following Huber and Power's (1985) guidelines for obtaining quality data from key informants, we developed a survey using Dillman's (1978) method and administered it to company executives drawn from the membership of the Dubai Chamber of Commerce and Industry (DCCI) database. In addition, we performed a pilot study with business executives to assess the quality of the research design. These steps resulted in some minor stylistic changes being made, mainly to the instructions to respondents and the need to keep the responses anonymous.

The sampling frame consisted of a total of 2,200 companies, with 310 responding, for an effective response rate of 14%. A total of 280 companies remained in the sample after companies missing either CSR or organisational performance data were eliminated, giving a final response rate of 13%. Each of the 2,200 questionnaires was e-mailed and/or faxed to the identified contact person along with a cover letter explaining the nature of the study and the promise of confidentiality. After the original mail-out, two follow-up mailings were sent that included duplicate and cover letters, questionnaires

TABLE II

Descriptive statistics

Industry	N^a	Average size	Age	Average CSR score	Average EC score	Average CR score	Average FP score
Manufacturing	61	308	17	3.87	4.33	4.43	3.38
Trading and repairing services	51	472	15	3.85	4.37	4.31	3.29
Hotels and restaurants	64	198	17	3.90	4.24	4.34	3.39
Real estate, rental, and business services	55	28	13	3.79	4.36	4.28	3.29
Education	14	350	17	3.76	4.15	4.62	3.36
Banking and financial services	7	198	12	3.75	4.24	4.14	3.37
Mining and quarrying	2	1,186	35	3.44	4.50	4.17	3.07
Others	24	753	10	3.54	3.84	3.84	2.86

$^a N = 280$.

EC: Employee commitment, FT: Financial performance, CR: Corporate reputation.

(the second and third mailings were sent to the non-respondents three weeks after each previous mailing). We used Armstrong and Overton's (1977) extrapolation procedure to assess non-response bias. No significant differences were found between the early and late respondents. Thus, non-response bias is unlikely to be an inhibitor in our analysis.

As shown in Table II, the final sample included 61 firms from manufacturing, 51 from trading and repairing services, 64 from hotels and restaurants, 55 from real estate, rental, and business services, 14 from education, seven from banking and financial services, two from mining, and two firms not able to classify their sector of activity. The executives who responded had been with their firms for an average of 11 years; they represented firms that had existed for an average of 18 years and employed an average of 276 people (see Table II).

Variables

Dependent variables

Financial performance was measured by seven items on a 5-point Likert scale, with 1 = strongly disagree to 5 = strongly agree. The first two items were adopted from Deshpande et al. (1993) and measured the firm's relative market share and size compared with competitors, the third item was adopted from Jaworski and Kohli (1993) and measured the firm's performance relative to competitors, and the last four items, adopted from Samiee and Roth (1992), assessed return on investment, return on assets, sales growth, and profit growth compared with competitors. Cronbach's α for financial performance is 0.85.

Employee commitment was measured using a three-item questionnaire on a 5-point Likert scale, from 1 = strongly disagree to 5 = strongly agree. The items were derived from Jaworski and Kohli (1993) and include the following items: "our employees often go above and beyond their regular responsibilities to ensure the organisation's well being"; "the bonds between this organisation and its employees are very strong"; and "our people are very committed to this organisation". Cronbach's α for employee commitment is 0.84. Corporate reputation was measured using three items on a 5-point Likert scale, from 1 = strongly disagree to 5 = strongly agree. The items were adopted from a scale developed by Fombrun et al. (2000) and measure managerial perception of stakeholders' perception of the reputation, trustworthiness, and quality of its offerings. Cronbach's α for corporate reputation is 0.70.

Independent variable

Table III lists the items we used to measure CSR. We used the well established construct developed by Maignan and Ferrell (2004). CSR was measured using a 26-item scale for six CSR practices: community responsibilities, environmental responsibilities, employee responsibilities, investor

TABLE III

Questionnaire items for the independent and dependent variables

Variable and items	References	Mean	Range	α
A. Corporate social responsibility	Maignan and Ferrell (2004)			
1. Community responsibilities				0.87
• Give money to charities in the communities where we operate		3.57	1–5	
• Help improve the quality of life in the communities where we operate		3.73	1–5	
• Financially support community activities (arts, culture, sports)		3.42	1–5	
• Financially support education in the communities where we operate		3.41	1–5	
2. Environmental responsibilities				0.83
• Incorporate environmental performance objectives in organisational plans		3.72	1–5	
• Voluntarily exceed government environmental regulations		3.66	1–5	
• Financially support environmental initiatives		3.49	1–5	
• Measure the organisation's environmental performance		3.64	1–5	
3. Employee responsibilities				0.78
• Treat all employees fairly and respectfully, regardless of gender or ethnic background		4.53	2–5	
• Provide all employees with salaries that properly and fairly reward them for their work		4.43	1–5	
• Support all employees who want to pursue further education		3.90	1–5	
• Help all employees coordinate their private and professional lives		3.90	1–5	
• Incorporate the interests of all employees into business decisions		3.93	1–5	
4. Investor responsibilities				0.78
• Incorporate the interests of all our investors into business decisions		4.15	1–5	
• Provide all investors with a competitive return on investment		4.19	2–5	
• Seek the input of all our investors regarding strategic decisions		3.93	1–5	
• Meet the needs and requests of all our investors		3.98	1–5	
5. Customer responsibilities				0.85
• Provide all customers with very high quality service		4.53	1–5	
• Provide all customers with the information needed to make sound purchasing decisions		4.34	2–5	

TABLE III

continued

Variable and items	References	Mean	Range	α
• Satisfy the complaints of all customers about the company's products or services		4.45	3–5	
• Adapt products or services to enhance the level of customer satisfaction		4.41	3–5	
6. Supplier responsibilities				0.78
• Provide all suppliers of products and services with a commitment to a future relationship		4.29	1–5	
• Offer all suppliers of products and services some price guarantees for the future		3.74	1–5	
• Incorporate the interests of all suppliers of products and services into business decisions		3.61	1–5	
• Involve all suppliers in new product or service development		3.55	1–5	
• Inform all suppliers of products and services about organisational changes affecting purchasing decisions		3.89	1–5	
B. Financial performance				0.85
Relative to our largest competitor, during the last year we				
• Had a larger market share	Deshpande et al. (1993)	3.44	1–5	
• Were larger in size		3.26	1–5	
Regarding our overall performance, during the last year we				
• Performed poorly relative to competitors	Jaworski and Kohli (1993)	3.65	1–5	
Relative to our largest competitor, during the last year we				
• Our return on investment has been substantially better	Samiee and Roth (1992)	3.57	2–5	
• Our return on assets has been substantially better		3.56	2–5	
• Our sales growth has been substantially better		3.61	1–5	
• Our profit growth has been substantially better		3.56	2–5	
C. Corporate reputation				0.70
• In general, our organisation has a good reputation	Fombrun et al. (2000)	4.09	2–5	
• We are widely acknowledged as a trustworthy organisation		4.52	3–5	
• This organisation is known to sell high quality products and services		4.49	2–5	
D. Employee commitment				0.84
• Our employees often go above and beyond their regular responsibilities to ensure the organisation's well-being	Jaworski and Kohli (1993)	4.30	2–5	
• The bonds between this organisation and its employees are very strong		4.29	2–5	
• Our people are very committed to this organisation		4.33	2–5	

responsibilities, customer responsibilities, and supplier responsibilities. Respondents were asked to indicate the extent to which each item reflected their organisation (on a 5-point Likert scale, from 1 = strongly disagree to 5 = strongly agree). The scale reliabilities (Cronbach's α) were consistent with those obtained by Maignan and Ferrell (2004): community responsibilities (4-item scale, Cronbach's $\alpha = 0.87$), environmental responsibilities (4-item scale, $\alpha = 0.83$), employee responsibilities (5-item scale, $\alpha = 0.78$), investor responsibilities (4-item scale, $\alpha = 0.78$), customer responsibilities (4-item scale, $\alpha = 0.85$), and supplier responsibilities (5-item scale, $\alpha = 0.78$).

Control variables

We controlled for three variables that are reported to significantly impact the effects of CSR on organisational performance. First, past research provides evidence that the size of the firm has an impact on the association between CSR and organisational performance (Moore, 2001; Preston, 1978; Stanwick and Stanwick, 1998). This is because stakeholders expect more social initiatives from large corporations than small ones. For example, large multinationals and publicly traded companies are more pressured to display their commitment to CSR as a result of consumer and shareholder activism against large multinationals (Drawbaugh, 2001; Klein, 1999). In addition, small firms are less able than their large counterparts to communicate their CSR activities to external stakeholders. Thus, we controlled for the size of the firm and measured size by the number of employees.

Second, the type of CSR activities firms engage in depends on their sector of activities (McGuire et al., 2003; Waddock and Graves, 1997). For instance, firms in the oil sector are involved more in environmental issues, while firms in the food industry are involved more in health and safety and community-related CSR activities. Further, Kolk (2003) reported that industries differ in their propensity to engage in CSR initiatives. Thus, we controlled for sector of activity. Firms were grouped into five sectors, namely tourism, manufacturing, real estate, trading, and banking and finance sectors. Third, consistent with past research (Delaney and Huselid, 1996) we controlled for the age of the firm. We measured age by the number of years since establishment in Dubai.

Reliability and validity of measurement scales

Although we employed widely used measures, we subjected the constructs used in this study to standard testing steps to make sure our constructs were reliable and valid (see Ping, 2004 and Slater et al., 2006). Following the steps used by Slater et al. (2006, p. 1226), we analysed the psychometric properties of the constructs used in this study in confirmatory factor analysis (CFA) using LISREL 8.80. Additionally, we evaluated the fit of the measurement model. Again, following Slater et al. (2006), we examined the high-order structure of CSR to provide empirical support for the focus on CSR construct at the higher-order aggregate level.

Construct reliability, convergent and discriminant validity

We assessed the construct reliability by calculating a composite reliability (CR) for each construct. We used the procedures suggested by Fornell and Larcker (1981) to calculate the CR index (CRI).[2] Along with reliability calculations, we also examined the parameter estimates and their associated *t*-values and assessed the average variance (AVE)[3] of each construct (Anderson, 1982; Bagozzi and Lynn, 1982). AVE was used to gauge convergent validity (Fornell and Larcker, 1981; Ping, 2004). Fornell and Larcker (1981) and Ping (2004) suggested convergent measures should contain less than 50% error variance (i.e. AVE should be 0.5 or above). We used the cut-off value of 0.70 and 0.50 for CR and AVE, respectively (Bagozzi and Yi, 1988; Hair et al., 1998). The scales' reliabilities ranged from 0.78 to 0.88, the factor loadings ranged from 0.40 to 0.92 ($p < 0.01$), and AVE ranged from 0.50 to 0.89 (see Table IV).

Following the reliability analysis, we established discriminant validity by calculating the shared variance[4] between each pair of constructs and verifying that it was lower than the average variance extracted from the individual constructs (Bagozzi and

TABLE IV

Correlations and shared variances[a]

	CMR	EVR	EMR	IVR	CTR	SPR	FP	CR	EC
Community responsibilities (CMR)	–	0.29	0.14	0.29	0.04	0.11	0.06	0.05	0.06
Environmental responsibilities (EVR)	0.54**	–	0.12	0.13	0.07	0.12	0.05	0.08	0.06
Employee responsibilities (EMR)	0.38**	0.34**	–	0.12	0.26	0.18	0.03	0.14	0.23
Investor responsibilities (IVR)	0.54**	0.36**	0.34**	–	0.07	0.12	0.05	0.08	0.06
Customer responsibilities (CTR)	0.21**	0.27**	0.51**	0.27**	–	0.17	0.02	0.22	0.24
Supplier responsibilities (SPR)	0.33**	0.35**	0.42**	0.35**	0.41**	–	0.06	0.06	0.11
Financial performance (FP)	0.24**	0.22**	0.18**	0.22**	0.13*	0.24**	–	0.08	0.04
Corporate reputation (CR)	0.23**	0.28**	0.37**	0.28**	0.47**	0.25**	0.28**	–	0.30
Employee commitment (EC)	0.24**	0.25**	0.48**	0.25**	0.49**	0.33**	0.19**	0.55**	–

[a]The correlations are included in the lower triangle matrix. Shared variances are included in the upper triangle matrix.
*$p < 0.05$, **$p < 0.01$.
$N = 280$.

Lynn, 1982). As shown in Table IV, the shared variances between pairs of all possible scale combinations indicated that the average variances extracted were higher than the associated shared variance in all cases. In other words, they are more internally correlated than they are with other constructs. This suggests discriminant validity of the construct in this study.

Fit of the measurement model

The model fit was evaluated using a series of indices recommended by Hu and Bentler (1999) – the DELTA2 (Bollen, 1989), comparative fit (CFI) (Bentler, 1990), goodness-of-fit index (GFI), Tucker-Lewis (TLI), and the root mean square error of approximation (RMSEA) indices. A fit to the data was achieved for the first-order based CFA, with DELTA2 = 0.92, CFI = 0.95, NFI = 0.91, GFI = 0.90, TLI = 0.94, PNFI = 0.68, RFI = 0.89, and RMSEA = 0.08 ($\chi 2 = 657.7$, d.f. = 241) (see Table V).

High-order construct for CSR

We also examined the higher-order structure of CSR to provide empirical support, in addition to the theoretical rationale, for the focus on CSR constructs at the higher-order aggregate level. The results indicate that, in addition to the item loadings reported in Table IV for each of the six CSR practices, there is support for each construct's higher-order structure. As such, community responsibility (loading = 0.45, *t*-value = 5.17, $p < 0.01$), consumer responsibility (loading = 0.56, *t*-value = 5.72, $p < 0.01$), supplier responsibility (loading = 0.69, *t*-value = 8.02, $p < 0.01$), employee responsibility (loading = 0.45, *t*-value = 5.17, $p < 0.01$), investor responsibility (loading = 0.45, *t*-value = 5.17, $p < 0.01$) and environmental responsibility (loading = 0.45, *t*-value = 5.17, $p < 0.01$) function as first-order indicators of the higher-order construct of CSR (R^2s range from 20% to 66%). The model fit for the higher-order structure was 0.90 for DELTA2, 0.95 for CFI, 0.92 for NFI and GFI, 0.93 for TLI, 0.68 for PNFI, 0.68 for RFI indices, and 0.08 for RMSEA ($\chi 2 = 341.37$, d.f. = 71).

Following Ping (2004), construct validity of the second-order construct is suggested by plausible correlations of the second-order construct with the other study variables, while convergent validity could be suggested by an AVE for the second-order construct that is greater than 0.5. The second-order CSR scale reliability was 0.79, the factor loadings ranged from 0.59 to 0.86 ($p < 0.01$), and the average variance was 50%. Overall, the nine measures in the first-order construct as well as the second-order construct were found to be reliable and valid in the context of this study.

TABLE V

Summary statistics of CFA

Construct	Average variance extracted (AVE)	Composite reliability (CR)	Range of loadings
First-order construct			
Community responsibility	65%	0.88	0.79–0.82
Supplier responsibility	53%	0.79	0.49–0.81
Consumer responsibility	59%	0.85	0.71–0.82
Employee responsibility	53%	0.78	0.50–0.83
Investor responsibility	52%	0.79	0.66–0.74
Environmental responsibility	54%	0.82	0.63–0.83
Financial performance	50%	0.87	0.40–0.92
Corporate reputation	81%	0.80	0.59–0.83
Employee commitment	89%	0.87	0.74–0.88
$\chi2$ = 657.7			
d.f. = 241			
DELTA2 = 0.92			
RFI = 0.89			
PNFI = 0.68			
CFI = 0.95			
NFI = 0.91			
GFI = 0.90			
TLI = 0.94			
RMSEA = 0.08			

TABLE VI

Definitions of key variables, descriptive statistics, and correlations

Variables	Definition	Means (SD)	1	2	3	4	5	6
1. CSR	Corporate social responsibility	3.86 (0.45)	1					
2. FP	Financial performance	3.32 (0.55)	0.30**	1				
3. EC	Employee commitment	4.29 (0.56)	0.44**	0.19**	1			
4. CR	Corporate reputation	4.34 (0.490)	0.41**	0.28**	0.55**	1		
5. FA	Firm age	6.17 (2.09)	0.07	−0.03	−0.07	−0.05	1	
6. FS	Firm size	2.77 (1.29)	0.14*	0.13	0.08	0.01	−0.20**	1
7. SEC	Sector	– (2.37)	−0.07	−0.04	−0.04	−0.09	0.16**	−0.37**

*$p < 0.05$, **$p < 0.01$.
N = 280.

Analysis

Table VI presents the means, standard deviations, and correlations of the different sets of variables used to test the hypotheses. Correlations between the dependent and independent variables are significantly correlated, suggesting a potential causal association between the variables. In addition, correlation results ($r < 0.9$) indicate that multicollinearity between the independent variables (independent variable and control variables) does not appear to be a serious problem. Overall, the correlations are consistent with prior research in western developed countries, indicating a positive association between CSR and performance.

Multiple regression was used to assess the impact of CSR on financial performance, employee commitment, and corporate reputation. As noted above, we controlled for three control variables: firm age, size, and sector of activity. Preliminary analyses were performed to ensure no violation of the key assumptions of normality, linearity, multicollinearity, and homoscedasticity.

Table VII reports results of the regression analysis of the different organisational performance measures. We ran two regressions for each performance measure; one with the control variables (Model 1), and one without (Model 2). Inspection of Table VII shows that all performance measures are significantly associated with CSR. Contrary to our expectation, we did not find support for our first hypothesis; the results show that CSR activities have a significant positive impact on financial performance ($R^2 = 0.112$, $p < 0.01$). It is worth pointing out here that although the model is statistically significant, the R^2 is very small.

The positive and statistically significant association between employees' commitment and CSR initiatives supports our second hypothesis ($R^2 = 0.254$, $p < 0.01$). However, contrary to our expectations (Hypothesis 3), the results show that CSR activities have a positive and statistically significant impact on a firm's reputation ($R^2 = 0.203$, $p < 0.01$). Overall, we find a significant and positive association between CSR activities and all measures of performance used in this study.

Discussion and conclusion

In this study we explored the association between CSR and organisational performance in emerging economies, focusing specifically on the fast developing region of Dubai. By so doing, we sought to extend the current body of research on the association between CSR and organisational performance in emerging economies. Our results are fairly straightforward: CSR has a significant and positive association with all performance indicators used in this study.

The most important finding in our study, and contrary to our prediction, is the positive association between CSR and financial performance. This result is consistent with previous empirical studies conducted in western developed economies showing a positive relationship between CSR efforts and financial performance. Confirming the relationship between CSR and financial performance in an emerging economy is significantly important for a number of reasons. While scholars and practitioners in western developed economies have a wealth of evidence on the relationship between CSR and financial performance, to the best of our knowledge,

TABLE VII

Results of regression analyses of different performance measures

	CSR and financial performance		CSR and employee commitment		CSR and corporate reputation	
	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2
Constant	1.972	1.905	2.161	2.425	2.668	2.866
CSR	0.301**	0.321**	0.438**	0.482**	0.415**	0.434**
Sector	–	−0.045	–	−0.112	–	−0.084
Age	–	−0.050	–	−0.090*	–	−0.057
Size	–	0.123	–	0.070	–	0.018
R^2	0.090	0.112	0.192	0.254	0.172	0.203
F-test	4.740**	4.483**	7.557**	7.932**	6.916**	6.795**
β	0.301	0.316	0.438	0.493	0.415	0.447

*$p < 0.05$, **$p < 0.01$.
$N = 280$.

this is the first systematic study that provides evidence of this relationship in a non-western context. In fast developing regions in emerging economies, where most of the emphasis is on economic growth and competitiveness, CSR is given low priority. Although it is likely that some firms may engage in CSR activities largely on moral grounds, providing evidence of a positive link between CSR and financial performance may help firms enact CSR initiatives.

Furthermore, our results raise serious doubts about the validity of the assertion that, as a result of the absence of strong institutional support for CSR, and presence of weak and ineffectual laws to guard against unethical practices, firms in emerging economies do not capture rents from their CSR activities (Foo, 2007). This viewpoint posits that competitiveness in emerging economies is based on slash and burn, exploitative human resource practices. Consequently, CSR has no place in these countries. For example, Foo (2007) argues that the dominant paradigm in emerging economies is the saying that ‘‘they (competitors) are ethical, so we have the competitive edge!’’ This is because, he argues, in emerging economies, firms engaged in CSR activities ‘‘will have to suffer unnecessary cost burden and ‘competitive disadvantage’ against their unethical or irresponsible counterparts’’. Further, Foo (2007) argues that firms offering ‘‘greener products cannot compete with their less ethical counterparts who offer cheap but environmentally unfriendly products’’. Unfortunately, prior to this study, there was little empirical evidence to refute the argument that CSR activities drain resources away and compromise firms’ competitiveness, and to support the assertion of a positive association between CSR and financial success in emerging economies. Thus, our findings provide the first empirical evidence to challenge the assertion that unethical firms crowd out ethical ones in emerging economies.

As expected, the results show that CSR initiatives have a positive association with employee commitment. This is understandable because firms that are engaged in CSR activities generally tend to have fairer HR practices, and are highly regarded by their employees (Aguilera et al., 2007). This is because, in a country where more than 90% of employees are expatriates and a large number of them are on short-term contracts working in an institutional environment in which no safety net or alternative economic or social provision exists for employees, and where the interests of employees are not well represented (Budhwar and Mellahi, 2007), employees are vulnerable, and their welfare depends almost entirely on good will vouchsafed them by their employers.

Another unexpected result of this study is the positive relationship between CSR and corporate reputation. We reasoned that firms in emerging economies would not be able to benefit from their CSR initiatives in terms of corporate reputation because of the lack of skills and effective channels to communicate CSR activities to external stakeholders. We conjecture that perhaps because of the small size of Dubai, firms are able to make their CSR initiatives visible. Another plausible explanation for the positive impact of CSR on corporate reputation is the fact that CSR is currently being heavily promoted by a number of institutional bodies such as the Dubai Chamber of Commerce, which has a dedicated CSR and ethics centre (Centre for Responsible Business), which enables firms engaged in CSR activities to celebrate their success and boost their corporate image and competitiveness.

This study has a number of implications for theory and practice. It bolsters and reinforces the accumulating body of empirical support for the positive impact of CSR on organisational performance. Although our results are by no means novel within the broad CSR–organisational performance literature, they extend the current body of knowledge beyond western developed economies. Further, this study shows that the impact of CSR on organisational performance in emerging economies is similar to that in western developed economies. At the centre of our argument for potential differences between developed and emerging economies is the fact that emerging economies have different business systems that may moderate the impact of CSR initiatives on organisational performance. Therefore, on the basis of these results, scholars should perhaps put less emphasis on the institutional differences between developed and emerging economies when it comes to CSR activities. Although the focus on a fast developing region in an emerging economy is a contribution of this study, it might limit the generalisability of our findings to other emerging economies. There are large differences in institutional conditions between Dubai and other emerging economies. As far as CSR is concerned, the lack of regulations, combined with intense competition and cut-throat practices in Dubai, may lead some firms to act in socially irresponsible ways to achieve their short-term economic objectives. However, since the government is able to monitor firms' activities because of the small size of the emirate, firms need to sustain a high standard of honesty and integrity to be able to operate successfully in the market. Also, given the high per capita income in Dubai, firms tend to make higher profits and therefore have high financial slack, enabling them to give to charities, engage in community activities, and promote other CSR activities.

For practitioners, this study provides empirical evidence to support CSR initiatives in emerging economies. Our experience with CSR managers in Dubai suggests that CSR champions are often dismayed at being unable to prove the worth of CSR activities. The positive impact of CSR on organisational performance reported in this study should help address concerns often expressed by sceptics about the value generated by CSR activities. The results of this study should also be of value to senior managers concerned with the overall performance of the firm. The positive impact CSR initiatives have on organisational performance underscores the importance of CSR in the quest for sustainable competitive advantage in both developed and emerging economies. Firms are able to reap tangible benefits, such as higher financial performance, higher employee commitment, and better reputation by engaging in CSR activities. Therefore, on the basis of this study, it is not advisable to marginalise CSR activities in emerging economies.

A number of limitations suggest that our results should be viewed cautiously. Our study is based on perceptual data, and although perceptual measures of organisational performance are well established and widely accepted, we would welcome studies based on objective data, particularly regarding financial measures of performance. In addition, because we collected data on the dependent and independent variables through the same self-report survey, our data may suffer from measurement bias.[5] Further, this study provides evidence of the types of links between CSR initiatives and different types of performance but does not help us understand the process through which CSR impacts performance. We would welcome detailed case study research to shed light on the afore-mentioned process. Finally, this study is based on data from a single country, and caution must be taken when generalising the results of this study to other emerging economies.

Notes

1 The factors are based on extensive discussions with practitioners in Dubai through stakeholder workshops and discussion forums organised by Dubai Chamber of Commerce and attended by the authors.

2 The formula for CR specifies:

$$\mathrm{CR}_\eta = \frac{(\sum \lambda\gamma_i)^2}{(\sum \lambda\gamma_i)^2 + (\sum \varepsilon_i)}$$

where CR_η = composite reliability for scale η; $\lambda\gamma_i$ = standardised loading for scale item γ_i, and ε_i = measurement error for scale item γ_i.

3 The formula for AVE specifies that:

$$V_\eta = \frac{\sum \lambda\gamma_i^2}{\sum \lambda\gamma_i^2 + \sum \varepsilon_i}$$

where V_η = average variance extracted for η; $\lambda\gamma_i$ = standardised loading for scale item γ_i, and ε_i = measurement error for scale item γ_i.

4 Shared variance was calculated as

$$\gamma^2 = 1 - \psi$$

where γ^2 = shared variance between constructs, and with the diagonal element of ψ indicating the amount of unexplained variance. Because η and ε were standardised, γ^2 was equal to the squared correlation between the two constructs.

5 We thank one of the reviewers for bringing this point to our attention.

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Belaid Rettab and Anis Ben Brik
Dubai Chamber, Centre for Responsible Business,
Dubai, U.A.E.

Kamel Mellahi
The University of Sheffield,
Sheffield, U.K.
E-mail: K.Mellahi@sheffield.ac.uk