

*Full Length Research Paper*

# Effect of corporate ability and reputation on organizations' performance and CSR

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**The purpose of this research is to study the effect of corporate ability and corporate reputation on corporate organizations' performance and corporate social responsibility of SMEs in Northern Region of Thailand. It was found that corporate reputation had direct effect on CSR and corporate organizations' performance, while corporate ability had direct effect on CSR but had indirect effect on organizations' performance through corporate reputation.**

**Key words:** Corporate ability, corporate reputation, corporate organizations' performance, CSR.

## INTRODUCTION

The current global economic and social environments have swiftly reformed and are the main key factors, with positive and negative impact on the business performance of SMEs (Kuratko and Hodgetts, 2007). In the past, majority of impacts were from within the country's environment and from operational capability. But at the present, it has transformed from previous situation; impact is now from numerous aspects, such as global economic, free trade and overseas investment, various taxes and tariffs trade barriers and non-taxes and tariffs measures which lead entrepreneurs to improve their business performance in order to strengthen their sustainable competitive capability (Chiamchitrong, 2010). Businesses must have operational strategies, marketing capability, proactive operation system, reformed concepts and paradigms to enhance their globalized competitiveness in order to conform with external environment. Business must focus on competing with speed by integrating innovative thinking and organizational knowledge over existing resources (Barney, 1991) with network access to build connectivity (Van, 2003), including the essence of customer and other related stakeholders' satisfaction.

Organizations are surrounded by environments which impact their works and access to limited natural resources, that is, raw materials, skilled workers, network, technological knowhow and customers' supports (Barney, 1991). These supporting environments for businesses

consist of: (1) economic and law, (2) technology, (3) competition, (4) society and (5) global businesses (Nickels et al., 2008). It is often found that business failure is due to lack of full understanding of these mentioned environments, and the deployed strategies do not conform to evolving external environments. In addition, failure might be due to limited analysis on environmental impact on business management or limited experiences and management skills in leading organization onward (Carmeli and Tishler, 2005). Businesses mainly focus on internal factors, such as profits and growth, but not on stakeholder's benefits which include employees' welfare, security, community and society benefits; the supporting keys to business growth. In addition, the public demands organizations, both public and private to commit more on social responsibility. Previously, almost all organizations focused only on productivity and profitability and not on those issues related to environmental sustainability, community benefits, consumers' interests and employees' welfare. So, if management has less ethical awareness- in case of some companies that had their production line in poor countries, paid low wages but sold their products at high prices to consumers in developed countries- it shows the lack of corporate good governance on human rights and welfares of workforce. On positive aspect, multi-national companies which have their customers and suppliers all over the world could apply CSR to their stakeholders or local communities; and hence the global economy would grow together with business which is the key element for achieving sustainability in the future.

The alertness of CSR trend among SMEs has increased, starting from the awareness about the impor-

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tance of CSR and putting it into practice. But, since CSR is new in business, SMEs still have limited perception and appreciation of CSR activities compared to large enterprises (Aqueveque and Ravasi, 2006).

CSR practices through various activities and projects result in good corporate image and minimize the negative opposition from local communities; and employees' participation on all corporate activities would generate conformity. In turn, it raises more profits from increasing number of consumers who value corporations' CSR activities. It is in line with a research which revealed that over 90% of Thai consumers preferred to buy products from producers who were involved in CSR (Pinitkiatikul, 2011). In the past, certain Thai industries ignored CSR activities and there were a lot of problems like protests from stakeholders in various forms, community protests against the industry or those demanding for financial compensation for any incurred damages. Therefore, with the above consequence, the research team would like to find out the outcomes in order to strengthen SMEs' competitive capability in the long run.

SMEs in Northern Region of Thailand were mostly family businesses or originated from family businesses. Hence most entrepreneurs were weak in strategic management and systematic thinking skills. They often imitated their approach from their kinship practice or from their personal judgment. Drawback included insufficiency of business interest in CSR practices which would be of benefit to employees, communities, societies and environment. It does not involve only profit optimization alone as done in the past. Furthermore, it is generally perceived that entrepreneurs' proficiency is personal attributes that are not always possible to transfer to the younger generation who would have to manage their business afterward.

### Research objectives

- 1) To study the corporate social responsibility, corporate ability, corporate reputation and corporate organization's performance of SMEs,
- 2) To study the effect of corporate ability and corporate reputation on corporate social responsibility and corporate organizations' performance of SMEs.

### Research scope

This research is carried out in quantitative format at organizational level with SMEs as the analysis units. The study is confined to the integration between the corporate ability and corporate reputation with the corporate social responsibility and corporate organization's performance of SMEs. The duration was 6 months (December 2011 to May 2012). The population was 900 SMEs from 3 provinces (Chiangmai, Lamphun and Lampang) in Northern Region of Thailand.

## LITERATURE REVIEW

This research study is carried out in line with the stakeholders' theory and resource based view of the business. The stakeholders' theory, as described by Freeman (2006), states that a successful business must have the ability to create value to stakeholders, protect environment, create good living on earth, good governance, sustainability and responsibility, going hand in hand. Stakeholders receive benefits and effects from the business operation of the organization; they are customers, employees, community, suppliers, representatives, shareholders, media, public, business partners, successors, predecessors (pioneers), academic individuals, competitors, NGOs, associations, labor unions, loaners, government (laws /regulations), policy setters, politicians, prospect employees and customers (Clarkson, 1995; Donaldson and Preston, 1995).

Resource based view states that any organization with valued resources must be able to generate incomes and profits with rare, hard to imitate resources and with no replacement from other resources (Barney, 1991). This is because the availability of resources is a crucial factor and must be within the organization. The theory of resource-based view (RBW) described organizations' attention on the available resources and the comparative advantage of organizations. Organizations ought to focus on the existing resources and capability in response to the changes of external environments (Wernerfelt, 1984). Barney (1991) had conceptually described resources as assets, capabilities, organizational process, firms' attributes, information and knowledge which organizations could tap for benefits and control.

### Corporate social responsibility (CSR)

Corporate social responsibility is the factor which illustrates the growth of business toward sustainability, which is the fundamental concept of religious ethics (Baker, 2003). This is done by utilizing resources from both internal and external sources to support and accommodate the society. In addition, it endorses the outcomes of organizations' committed actions as either preventive or corrective operations, which include aids to the society, community and employees for happiness and good quality of life (Alas and Tafel, 2008). Hence, CSR is also named corporate citizenship which sees organization as a member of the society that ought to behave appropriately to people and environment like the way humans relate with one another in the environment (Quaak et al., 2007; Rahimzah et al., 2009). These good deeds carry out by organizations would impact CSR, corporate ability and reputation (Aqueveque and Ravasi, 2006).

CSR is the obligation organizations have with the external citizens in the society to provide relevant stakeholders, and is also involves legal regulations and agreements

between employers and their employees (Jones, 1980). It consists of economic, legal, ethic, philanthropy discretionary and environmental management (Marrewijk, 2003).

CSR is a concept that ensures organizations must be accountable for the impact of stakeholders, which is the continuous commitment that organization must operate with justice, responsibility as well as money and efforts to develop the economy and to improve the quality of life of employees and their families, including the surrounding community and society as a whole. The conceptual scope of CSR could be elaborated (Pirsch et al., 2007) as follows:

(1) Environmental protection: finding corrective solutions to the impacts of resources usage on the environment by not merely complying with environmental laws and regulations, but adopting recycle raw materials and energy efficiency practice. It involves commitment to long term sustainability in assessing production process to decrease wastage and emitted toxic gases. This can be done by utilizing the available assets and resources effectively to preserve existing resources for next generation.

(2) Labor security: granting freedom to employees to set up committee/club to protect their benefits, abolish child labor, stop labor oppression and eliminate the segregation of professional hiring standard and policy.

(3) Human right: avoiding any business operations which have severe effects on human right and dignity of employees. There should be no segregation of employees at work place; they must have professional code of conducts and with suitable working hours. Human right is a high cost element which is related to the reputation of the organization and has many stakeholders at both domestic and international levels. At the domestic level, it involves promoting human right protection, and at international level, business should be done with organizations that protect human right. It is rational for organizations to bear the burden of this human right related cost for workers' well being and freedom from insecurity threats. In turn, it would yield solid benefits and profits as workers would have high spiritual moral and low turnover.

(4) Community involvement: engaging and assisting community in numerous approaches, such as cooperation/alliance with community, employment, global community involvement, philanthropy, donations, public volunteer works, poverty aids and visiting community. The surrounding communities of the organization ought to benefits most from the organization. This practice does not only promote the organization because of its good reputation, but also promotes its products brand as well.

(5) Business standard: operating various dimensions of CSRs, such as moral and financial returns, environment protection, human rights and labor standards, which, if acknowledged at organizational or international level would guide all businesses to develop their related business standards.

(6) Health promotion: focusing on the work place in relation to health and hygiene; the important mission of the organization must become to develop staffs' health and hygiene.

(7) Disaster aids: assisting disaster victims in prompt manner (Archie, 1991).

Therefore, the researcher summarizes that corporate social responsibility could be operated in various approaches depending on the opportunity, readiness and capability of such organizations based on the fundamental relevant stakeholders (Wilenius, 2005).

The study of Larsen et al. (2001) revealed that customers were interested in organizations with ethics, CSR and environmental protection activities. Carroll (1991)'s concept presented Carroll's pyramid of CSR for it to be acknowledged throughout the business world by allocating 4 responsible dimensions: (1) economic, (2) legal, (3) ethical and (4) philanthropic responsibilities with elaborative details as follows:

(1) Economic responsibility: Business is set up to produce products and services with profitable results and highest profitable targets. Organizations must be accountable for generating high earning per share (EPS) at all time and often with the comparative advantage, constant work effectiveness and constant profits. This responsibility is the lowest level of the pyramid.

(2) Legal responsibility: Business sectors must not only be acknowledged and accepted by the society to operate, but must also comply with the laws and regulations of the society. This is the next level of Carroll's pyramid. Legal responsibility consists of actions that do not contravene legal purpose; it entails willingness to operate under the laws and regulations of the country or community. Law abiding organizations produce products or services in line with the minimum laws and regulations requirements.

(3) Ethical responsibility: Economic operation that complies with the laws and justice of the society not written down as laws. Moral responsibility includes standards, performance measurements; expectation of customers from employees, shareholders and community. Actually, moral is the basis of laws and regulations. It is the blending of values and measurements that society expects business sector to have. Sometimes, it might be higher and difficult for the business sector to comply with. However, it must be adapted and adjusted to in line with the laws by enlarging and widening the scope of laws to cover this social norm. Moral responsibility consists of the operational compliance with the traditional norms, the accepting of new gradual evolving social norms, and preventing of negotiation for exemption from the standard compliance. Corporate citizenship is the organization which complies with the moral and ethical aspects and is perceived as an organization that does not only comply with the laws and regulations but also with moral and integrity.

(4) Philanthropic responsibility: It is the responsibility at the top of the pyramid. It is the compassion which the society expects from good governance organization, such as supporting public security, financial support on artistic works, donations to society, participation in the activities of the community surrounding the organization, granting scholarship and supporting the quality of life projects. However, compassion responsibility is different from the virtue responsibility expected by the society. Compassion responsibility is not expected but is desired from the society; examples include money donation, items donation and humanity aid without which commitment is condemned as lack of virtue responsibility. It seems to be on volunteer basis than virtue standard. Hence, it is not as important as other described responsibilities. This responsibility is the good deed of the organization.

It is concluded that Carroll's pyramid is the corporate social responsibility with 4 dimensions from the fundamental economic aspect of generating profits under legal compliance and virtue responsibility of doing the right things and not jeopardizing anyone. Compassion responsibility with good deed from the organization is similar to good citizen of the society. Maignan (2001) revealed that the most important fundamentals of corporate social responsibility are legal, virtue, compassion and economic responsibilities; and it is stated that the most important fundamental CSR is economic followed by compassion, legal and virtue aspects accordingly (Visser, 2005).

### **Corporate ability: CA**

Corporate ability is part of the corporate association since the different levels of customer's association with the producers or sellers of products or services yield the difference in outcomes of customers' evaluation on the products. However, the association with the organization is the perception or belief related to the organization, organization's reference, knowledge about organization from past to present, including attitude toward organizations and their evaluation (Brown and Dacin, 1997). Hence, organizations' ability is the expectation of society from organizations based on their actions, trust and distrust of organizations. Association with organization is divided into 2 elements: CSR and corporate ability (Berens, 2004), which means that customers' association with organizations has effect on products evaluation. Therefore, both CA and CSR have effect on the evaluation of organization and also on products of organization. It reveals that CA has more effect on organizations' reputation and corporate social responsibility (Brown and Dacin, 1997); and also, CSR has high effect on endorsed strategy and monolithic branding strategy (Berens et al., 2005).

Corporate ability does not only cover resources, but also includes volunteer or official factors, such as organi-

zational culture or organizations' ability as perceived from various factors (Nemeth, 2007); for instance, from timing perspective that long established organizations have stable, durable ability and are well recognized. It can also be perceived from either hard or soft factors (Robson and Bennett, 2000). The hard factor might be linked to the basic structure, machines, equipment and tools and the soft factor might be related to human resources, knowledge base, skills, cultures, strategies, communications, administration, managing technologies and organizational values. It is revealed that the soft factors are more important than the hard factors which affect an organization's ability as its resources could not be procured or allocated (Brown and Dacin, 1997). Furthermore, organizational ability and the deployment of this ability are the indication of value creation and the guiding of comparative advantages.

At present, another important role of senior leadership is the building of organizations' efficiency and supporting the application of core capability and competency of organization to be more different (Robson and Bennett, 2000) in comparison with competitors as the organization is capable of deploying its plans better than other organizations (Van, 2003). However, there is another important aspect, which is the capability to deploy strategy for enhancing competency and effective approach in creating comparative advantages (Sabate and Puente, 2003). The capability in deploying strategy with efficiency depends on the capability of internal human resources which include their quality, skills and other attributes as required by the organization, as well as the efficiency of internal administration of organization. The building of corporate ability ought to start with the capability of human resources (Ubius, 2009). Therefore, the human resource process must be able to select appropriate staffs for the job position. Then these staffs would be developed to have appropriate skills and capability including core competency to meet organization's requirements.

In addition, Boyatzis (1982) defined core competency as the unusual, unique and different characteristics which consist of aspiration, individual images, social status or other knowledge (Cepeda and Vera, 2007). The specified core competency for the specific personnel qualification of organization is used for job assignment in organizations. Core competency could be divided into various formats (Cripe and Mansfield, 2001). It is divided into 3 groups; (1) capability in self management, that is, confidence and flexibility, (2) capability in managing others, that is, leadership, communication and motivation, human relationship, customers relationship, etc and (3) capability in managing business, that is, solving, analyzing, specialist thinking and creativity etc.

In the past, the direction of modern management highly valued the importance of HRM and innovation. Later, it was shifted more to HRM, that is, the management that focuses on the process over the added value of human

resources management. Any organization with better HRM would have higher level of competitive capability in modern management perspectives, based on Kaplan and Norton (2004) who presented the view of intangible assets under the modern management of organization, including organization, information and human resource capitals by applying innovative and strategic decision making (Dunning and Dunham, 2010). They affect successful entrepreneurs and members of organizations to accept changes. Corporate ability also affects organizations' reputation (Flatt and Kowalczyk, 2006). Then our research hypotheses are:

- H1: Corporate ability affects organizations' reputation,  
 H2: Corporate ability affects corporate organizations' performance,  
 H3: Corporate ability affects corporate social responsibility.

### Corporate reputation

Corporate reputation is the accumulated organizations' attributes and images with time, from past to present (Herbig and Milewicz, 1995). It might be the reputation of pricing, product quality, innovation and linking of management's past performances and future expectations, linking of organizations' attributes with organizations' performance (Weigelt and Camerer, 1988) or linking of past actions and outcomes to show capability in presenting benefits to the stakeholders (Fombrun and Van, 1997). Corporate reputation is important for the strategic values of the organization, that is, when customers receive products/services at low costs, on time and without damages. Carmeli and Tishler (2005) argued that corporate reputation had positive outcomes on corporate financial performance. Further-more, corporate reputation has various positive effects on organizations; examples, customers' buying intention, customers' attitude toward sellers and products, and perceived values and obstruction against competitive products (Weigelt and Camerer, 1988). It yields positive outcomes on corporate organizations' performance, attracts finance investors, lower cost of production, increases competitive capability and good corporate citizenship among employees.

Therefore, corporate reputation entails valued resources, accumulated expertise with time, rareness, network, engagement of all stakeholders and difficult to imitate. They are result of comparative advantages and good performance of the organization, based on the RBV theory of Barney (1991). Since corporate reputation is intangible, unmarketable and hard to imitate, it has positive effect on organizations' performance, and CSR activities are the resources which organizations are able to deploy against competitors in the long run (Aqueveque and Revasi, 2006).

Organizations' reputation and cultures are intangible with added financial value, and rareness since not every

every organization has them. Good reputation would be difficult to imitate or replace (Barney, 1991; Fombrun, 1996; Roberts and Dowling, 2002). It equips organization with comparative advantage and affects corporate organizations' performances and sustainability.

Corporate reputation is customer's perception and confidence in organization as a result of organizations' past interactions in both short and long terms, which include the products impression, anticipation of consistency in products and services quality, with no negative perspective (Caruana, 1997). It is crucial as perceived by the consumers, trade partners and all business related stakeholders. Building corporate reputation is not easy and simple. It takes quite a lengthy time and efforts to continue to develop products and services, corporate trustworthiness perceived by consumers, efficient business operation, leadership vision and attractive low unit cost investment for long run business sustainability (Eberl and Schwaiger, 2005). Corporate reputation affects corporate trustworthiness, the perceived CSR, quality of products and services and the corporate organizations' performance (Aqueveque and Ravasi, 2006). It fluctuates with time and has positive effects on corporate organizations' performance (Dunbar and Schwalbach, 2000); and also affects business operations (Kaffashpor Kashani, 2006).

Corporate reputation and corporate ability are abstract and intangible. Organizations with these 2 aspects would have sustainable comparative advantages. It is revealed that corporate reputation affects comparative advantages (Hitt et al., 2001) and organizations' performance (Barney, 1991; Kaplan and Norton, 2004). It leads to decrease in numbers of competitors and the obstacle of entering market (Caves and Porter, 1997). It blocks the criticism of high pricing (Benjamin and Polodny, 1999), and supports the long term security of stock prices. It has potential of good and sustainable organizations' performances (Roberts and Dowling, 2002). It generates comparative advantages and high organizations' performance outcomes (Sabate and Puente, 2003); it decreases operation costs and attracts skilled personnel to join the organization (Fombrun, 1996). It yields corporate loyalty and trustworthiness (Aqueveque and Ravasi, 2006). It could be measured from innovation application, attracting skilled personnel, products and services quality management, long term investment, sound financial status, corporate social responsibility and effective utilization of resources based on the following hypotheses:

- H4: Corporate reputation affects corporate organizations' performances.  
 H5: Corporate reputation affects corporate social responsibility.

### Corporate organizations' performance

Business operation values the importance of business growth and focuses on effective resources utilization

(Raymond and Josée St-Pierre, 2006). It results in the performance within standard, low and effective costs. It also involves the distribution of products and services to customers with outcomes effect on corporate organizational performance (Wingwon, 2007). Production and operation show the effective business that would benefit the planning and development of effective operation in the future (Demirbag et al., 2006).

Operation success is derived from the participation of all sectors by integrating different targets and directions in response to business stakeholders' requirements (Lin and Kuo, 2007), focusing on the micro operation level which has effect on all factors: entrepreneurship, customers, innovation system, cooperation at national and international level, perceived leadership, team works and the joint learning of relevant parties (Fazzari and Mosca, 2009). Results of organizations' performance are often related to cost reduction, increased productivity, increased profits and customers' satisfaction. An organization with solid and sound collaboration with other organizations throughout the supply chain in information, knowledge sharing and regular meetings would yield good corporate organizational performance outcomes.

## RESEARCH METHODOLOGY

The research is conducted in questionnaire format and distributed to business entrepreneurs of 331 business entities from 900 SMEs in Chiangmai, Lamphun and Lampang provinces in Northern Region of Thailand. There are 308 completed questionnaires used in our analysis. These completed questionnaires have 4.62% of tolerable error and 96% of reliability. The research was to study the factors affecting CSR activities and corporate organizations' performance. The stratified two stage random sampling technique was applied in distributing questionnaires and assigning provinces as the primary sampling unit, with business attributes as the secondary sampling unit. The entrepreneurs were requested to complete the questionnaire as exhibited in Table 1.

Measures were divided into 4 sections using 5 Likert levels scale measurement (1970). The CSR section was further divided into 7 portions: societal CSR as modified by Aqueveque and Ravasi (2006), philanthropic CSR as modified by Schuyt et al. (2002), ethic and philanthropic CSR as modified by Podnar and Golob (2007), legal CSR as modified by Podnar and Golob (2007), economic CSR as modified by Maignan et al. (1999), ethical CSR as modified by Maignan et al. (1999) and discretionary CSR as modified by Maignan et al (1999). Organization performance was modified by Aqueveque and Ravasi (2006); financial performance, by Maignan et al. (1999); corporate reputation, by Aqueveque and Ravasi (2006) and corporate ability, by Berrel et al. (2005). data analysis was conducted using descriptive statistics and structural equation modeling (SEM) with PLS-Graph technique (Chin, 1998).

SEM is the equation used to exhibit the linkage among constructs integrated under the theories or the empirical studies. Since the latent variables were highly intangible and did not have their own data, their data were extracted from manifest variables. These measurement models were either reflective or formative. This research applied both formative and reflective models in performing the analysis.

Structural equation model is,

$$\xi_j = \beta_0 + \beta_1 \xi_1 + \beta_2 \xi_2 + \dots + \beta_k \xi_k + \zeta_j; j = 1, 2, \dots, m$$

$\xi_j$  = endogenous variable of each path, by "m" means the number of paths

$\xi_1, \xi_2, \dots, \xi_k$  in structural equation model means antecedent variables of each equation which could be either exogenous or external endogenous variables

$\zeta_j$  = error term, by  $E(\zeta_j, \xi_k) = 0$  means no error in variable or no misspecification error

Reflective measurement model is,

$$X_{ij} = \lambda_0 + \lambda_j \xi_j + \zeta_{ij}; j = 1, 2, \dots, m; i = 1, 2, \dots, n_j$$

where  $n_j$  is number of manifest variable of  $j$ th latent variable.

Formative measurement model is

$$\xi_j = \pi_0 + \pi_1 X_{j1} + \pi_2 X_{j2} + \dots + \pi_{p_j} X_{jp_j} + \zeta_j$$

where  $p_j$  is number of manifest variable of  $\xi_j$ ;  $j = 1, 2, \dots, m$

## RESULTS

Table 1 reveals that the majority of entrepreneurs were males and over by 2 folds. The majority of average ages were between 41-50 years and the remaining average ages were lower than 40 years and higher than 50 years. The majority was married, but the single marital status was also noticeable high. Bachelor and masters degrees were at high proportion representing 88 percents which could be interpreted that management style tends toward international and more systematic approach. There were approximately 2 third of businesses in the company (medium) with the remaining as either proprietorship (mini) or partnership (small).

Furthermore, there were approximately 1 third of entrepreneurs with business experiences over 10 years, 25 percents with personal capitals and 75 percents with business growth status and 27 percents with business growth rate of 10-24%. Nevertheless, there were 13 percents of business with negative growth rate.

The reviewing of opinion level of CSR activities, organization's performance, corporate ability and corporate reputation is under the criteria of 3.50-4.50 which indicated high practice and 4.51-5.00 meant most practice. It reveals that all latent variables indicated high average values (Table 2). On CSR activities, it is revealed that business enterprises focus and deploy on earth CSR or environmental CSR, legal CSR and ethical CSR over others, with legal CSR higher than all other CSR activities; societal CSR, philanthropic CSR, economic CSR and discretionary CSR. The discretionary CSR was with the least average value, but all dimensions were still high, closer to the highest average values. The discretionary CSR was with the least average value due to organizations not donating to support society and increasing salary of senior staffs. However, the organization ensured that their salary scales were higher than other organizations within the same industry. Corporate organization's performance was rated as high level.

On the corporate reputation and organization's ability, it is revealed that corporate reputation affected CSR and corporate organization's performance at very high level.

**Table1.** Population characteristics of entrepreneurs and organization data (N=308)

Characteristics		Frequency	Percentage
Gender	Male	191	62.02
	Female	117	37.99
Ages	31-40 years	34	11.04
	41-50 years	236	76.62
	51-60 years	38	12.34
Marital Status	Single	113	36.69
	Married	195	63.31
Educational Level	High School	38	12.34
	Bachelor 's Degree	69	22.40
	Master's Degree	201	65.26
Business Location	Lampang province	147	44.41
	Lamphun province	62	18.73
	Chiangmai province	122	36.86
Type of Business	Proprietors (Mini)	68	22.08
	Partnership (Small)	45	14.61
	Company Limited (Medium)	195	63.31
Business Experience	Over 10 years	308	100.00
Number of Employees	Not over 10 persons	34	11.04
	10-20 persons	41	13.31
	21-100 persons	73	23.70
	Over 100 persons	160	51.95
Source of Investment	Personal Capital	75	24.35
	Personal Capital/Financial Loans	233	75.65
Business Growth Rate	Negative	41	13.32
	Remain	35	11.36
	1-9 %	149	48.38
	10-24 %	83	26.95

While organization's ability was also rated as high level, and with higher average value of corporate reputation, the organization was able to produce products and services with high quality and delivered high added value to customers which they could sense to have high cost of worthiness. But innovation on production was rated only high at the medium level.

Figure 1 and Table 3 show that corporate ability had high effect on corporate reputation ( $\beta = 0.724$  from 1.00), while corporate reputation had a mediator role in passing on rather high effect of corporate ability on CSR and organization's performance. Corporate ability had effect passed on through corporate reputation to CSR at value equal to 0.683 and passed on through corporate

reputation to organization's performance at value equal to 0.484. This indicated the ability of corporation in producing products and services with high quality and advanced innovation and with added value to consumers, that is, consumers received money worth the products and services which yielded outcomes on corporate reputation. The effect level of corporate ability on corporate reputation was noticeably high. In addition, corporate ability did not only end at corporate reputation but in turn joined with corporate reputation in passing on effect to corporate organization's performance and CSR activities. From Table 3 on CSR and corporate organization's performance, it is seen that CSR activities had effect on corporate reputation which stated that for corporation to

**Table 2.** Descriptive statistics and measurement model statistics.

<b>Formative indicator</b>	<b>Average</b>	<b>weight</b>	<b>t-stat</b>	<b>alpha</b>	<b>AVE</b>
Societal CSR	4.45	0.121	3.13	0.904	-
Focused on environment	4.52				
Looked after community members	4.39				
Earth CSR or Environmental CSR	4.53	0.29	6.13	0.735	-
Earth as nice living place for next generation	4.77				
Social crisis as lack of harmony/goodwill	4.61				
Earth needs people with responsibility	4.88				
Earth needs cooperation at international level	4.27				
Donating to charity not rely on government	4.14				
Philanthropic CSR	4.30	0.033	2.67	0.768	-
Determination to minimize unemployment	4.39				
Providing job opportunity for minority	4.26				
Participating on solving social issues	4.03				
Virtue Standard in tabulating profits	4.49				
Business with virtue over highest returns	4.24				
Business integrity before profit growth	4.36				
Legal CSR	4.78	0.146	1.73	0.944	-
Doing business with legal compliance	4.89				
Respecting all laws and regulations	4.89				
Transactions within legal restrictions	4.77				
No transactions against laws	4.89				
Honor all bided contractual commitments	4.61				
Management complied all laws	4.89				
Company complied to Labor Laws	4.75				
No discrimination against sexes, races and ages.	4.75				
Justice on welfares and job promotions	4.61				
Ethical CSR	3.51	0.171	2.86	0.933	-
Company has strict code of conducts	3.38				
Staff has professional standard qualifications	3.27				
Company evaluates staff on suppliers fairness	3.88				
Staff scrutinizes miss conducts of other staffs	3.51				
Discretionary CSR	4.02	0.124	12.34	0.846	-
Remuneration higher than industrial average	3.77				
Salary increase on staff with higher qualification	4.03				
Donation to support society	4.01				
Supports sport and cultural events	4.28				
Economic CSR	4.36	0.455	4.51	0.85	-
Continue improving performances	4.48				
Established customers complaint units	3.78				
Continue products quality improvement	4.75				
Measure performance by customers satisfaction	4.50				
Achieve business targets with highest returns	4.25				
Achieve outcomes of cost reduction	4.25				
Follow up on staff productivities	4.50				
<b>Reflective indicator</b>	<b>Average</b>	<b>loading</b>	<b>t-stat</b>	<b>CR</b>	<b>AVE</b>
Organization Performance	3.75	-	-	0.96	0.801
Trend on over take competitors	3.91	0.871	67.01		
Look like large progression	3.49	0.762	30.99		
Have excellent leadership	3.67	0.93	78.77		
Have clear vision related to future	3.88	0.995	157.31		



**Table 2.** Contd.

Good Management	3.55	0.995	85.68		
Have good team of staff	4.01	0.903	77.78		
Corporate Reputation	3.97	-	-	0.902	0.801
Good reputation in supporting social activities	3.91	0.872	71.69		
Good reputation in supporting community	4.03	0.939	348.09		
Corporate ability	4.16	-	-	0.775	0.547
Produce products / services with innovations	3.54	0.953	152.77		
Produce products / services with high quality	4.30	0.608	10.65		
Produce products / services with added values	4.65	0.604	1045		

**Table 3.** Effects of antecedence on internal variables.

Dependent variable	R <sup>2</sup>	Effects	Antecedents	
			Corporate ability	Corporate reputation
CSR	0.989	Direct	0.070 <sup>a</sup>	0.943 <sup>**</sup>
		Indirect	0.683	0.000
		Total	0.690	0.943
Organization Performance	0.510	Direct	0.060	0.669 <sup>**</sup>
		Indirect	0.484	0.000
		Total	0.490	0.669
Corporate Reputation	0.524	Direct	0.724 <sup>**</sup>	N/A
		Indirect	0.000	N/A
		Total	0.724	N/A

<sup>\*\*</sup> meant  $p \leq 0.01$ ; <sup>\*</sup> meant  $p \leq 0.05$ ; <sup>a</sup> meant  $p \leq 0.10$ .

have good reputation, it must maintain and keep up with such reputation by acting in line with virtues.

Organizations behave like human beings: once recognized as reputable entity with virtues would refrain from any bad behaviors and focus more on good behaviors in helping community and society on a broader scale. From Table 3, it is revealed that corporate reputation affects CSR more than organization's performance. However, it was not only affected by corporate reputation but also by corporate ability passed through the corporate reputation as well. Hence, corporate reputation was both variables and mediator of CSR and organization's performance outcomes. It is also revealed that corporate organization's performance is the key factor in accepting rather high effect from corporate reputation and indirect effect of corporate ability passed through corporate reputation to organization's performance as well as CSR. Corporate reputation had rather high effect on corporate organization's performance at 0.669 which was considered as very high. This means that corporation with good reputation could expect high corporate organization's performance. However, it was not from corporate reputation only but also from effect of corporate ability passed through corporate reputation to organization's performance as well.

Again, the review of corporate reputation had direct effect on organization's performance and CSR revealed that corporate ability had minimal effect on both factors at value equal to 0.060 and 0.070 subsequently. It also revealed that the path from corporate ability toward the corporate organization's performance (Corporate Ability→Org. Performance) was not significantly different from zero at 0.05 level, which means that empirical data did not support such mentioned path. But it revealed that both corporate ability and corporate reputation had joint effect on organization's performance as high as 51% and on CSR as high as 98.90%. The results of significant test are seen in Table 4.

### Quality of models

**Quality of Measurement:** Table 2 revealed the outcomes of each construct using Cronbach's alpha value (formative model) or composite reliability value (reflective model) with lowest value equal to 0.735 and with highest value equal to 0.960. This means much higher than minimum criteria value of 0.600 which indicated the high consistency of measurement. In review of

**Table 4.** Results of hypothesis test.

Research Hypothesis	path coefficient	t-stat	p-value	Conclusion
Corporate Ability→ Corporate Reputation	0.724	34.201	0.000	Supported
Corporate Ability→ Org. Performance	0.060	1.167	0.245	Not Supported
Corporate Ability→ CSR	0.070	1.911 <sup>a</sup>	0.057	Supported
Corporate Reputation→ Org. Performance	0.669	18.567	0.000	Supported
Corporate Reputation→ CSR	0.943	33.622	0.000	Supported

**Table 5.** Cross correlation between latent variables and quality of structural equation model.

	1	2	3	4	R <sup>2</sup>	AvCommun	AvRedun
1 Corporate Ability	0.739				0.000	0.547	0.000
2 Corporate Reputation	0.724	0.906			0.524	0.821	0.431
3 Organization Performance	0.545	0.713	0.895		0.510	0.801	0.408
4 CSR	0.753	0.993	0.714	<sup>a</sup>	0.989	-	-
Average					0.674	0.723	0.420
GoF <sup>b</sup>						0.689	

<sup>a</sup> CSR presented as formative manifest, not required  $\sqrt{AVE}$  value, <sup>b</sup> GoF =  $\sqrt{AvCommun * R^2}$

validity by observing corrected item total correlation value (formative model) or factor loading value (reflective model) it is seen that all values were higher than 0.700 which indicated that measurement of each construct had convergent validity; and from Table 5 it is seen that the value of  $\sqrt{AVE}_i$  higher than the correlation value between latent variables at "i" and at "j" indicated that each latent variable had classification validity, and is able to explain own construct without interfering with other constructs.

**Quality of Models:** Table 5 revealed the latent variables of each regression equation as follows:

$$\text{Corporate Reputation} = 0.724^{**} \text{ Corporate Ability}; R^2 = 0.524 \quad \dots \quad (1)$$

$$\text{Organization Performance} = 0.060 \text{ Corporate Ability} + 0.669^{**} \text{ Corporate Reputation}; R^2 = 0.510 \quad \dots \quad (2)$$

$$\text{CSR} = 0.070^a \text{ Corporate Ability} + 0.943^{**} \text{ Corporate Reputation}; R^2 = 0.989 \quad (3)$$

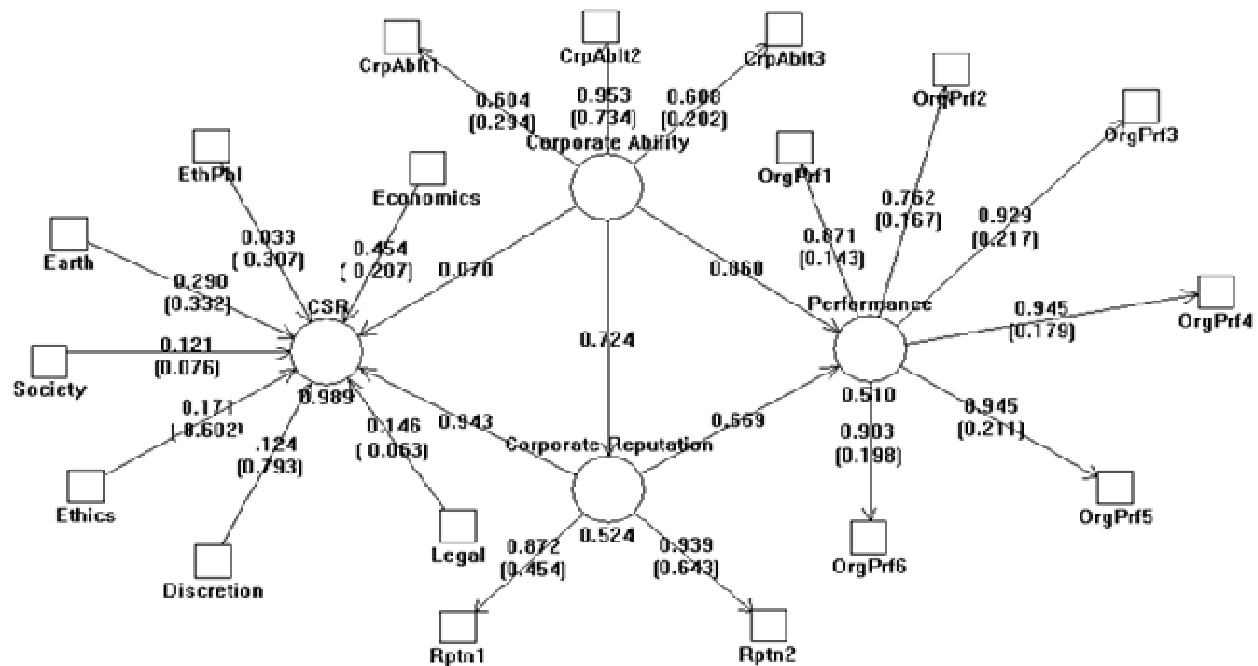
These equations could be used as prediction tools for corporate reputation, corporate organization's performance and CSR practices.

Having average R<sup>2</sup> value equal to 0.674 (Table 5) which was high at acceptable level (higher than 0.200), with average redundancy value equals to 0.420 indicated that latent variables are able to convey good effect through paths to indicators of dependent variables and had high forecast ability; average communality value equal to 0.723 (higher

than 0.500) indicated that latent variables were able to pass on good effect to indicators, and GoF equals to 0.689 (higher than 0.310) indicated that empirical data of enterprises in northern region conformed with structural equation model which consisted of structural equations and measurement equations, which were supported by current theoretical and empirical truths to be good for theoretical and operational purposes.

## DISCUSSION

The results of study indicated that the level of organization's performance and CSR activities depend on corporate ability and corporate reputation which is in line with concept of Robert and Dowling (2002). Corporate ability had both direct and indirect effect passed through the corporate reputation on CSR, with rather low direct effect but high indirect effect. Corporate reputation had very high effect on both aspects: CSR activities and corporate organization's performance; which means that corporations with high support in social and community activities would be willing to increase their CSR activities. It show that the more organizations support society, the more their drive to increase their commitment to the society, which is in line with Van's research (2003), who stated that CSR activities are the foundation for the organization that supports the society and that has some corporate reputation in this aspect. Hence, the acceleration of CSR activities was initiated from past experience of organizations that supported society and gradually increased frequency in these CSR activities.



**Figure 1.** Structure of equation model. The linkage between MV and LV shows two numbers. The numbers in parenthesis are regression weights used to demonstrate effect of MV to LV in formative measurement model, while the upper numbers without parenthesis are loadings indicating effect of LV on MV for formative measurement models.

Furthermore, corporate ability in producing quality products and services with advanced innovation and presenting added value to consumers had higher indirect effect than direct effect on CSR activities and good corporate organization's performance. This conforms with research report of Cornelius et al. (2008) and Berens et al. (2005) who concluded that quality of products and the delivering of added value products and services to consumers once supported with the corporate reputation would drive the organization to organize more CSR activities.

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