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Corporate Social Responsibility in Engineering Companies: Impact on Brand Image, Stakeholder Relations, and Business Performance

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The rapid globalization and increasing emphasis on sustainability have thrust Corporate Social Responsibility (CSR) into the forefront of business strategy for engineering companies. This paper investigates the multifaceted connections between CSR practices and their influence on brand image, stakeholder relations, and overall business performance in the engineering sector. Drawing upon a blend of qualitative and quantitative research methodologies, this study uncovers how engineering companies can strategically integrate CSR initiatives to foster positive outcomes. Our findings reveal that CSR, when integrated effectively, acts as a catalyst for enhancing brand image, engendering trust among stakeholders, and bolstering overall business performance. Through case studies and empirical analysis, we illustrate the various dimensions of CSR implementation that engineering firms can leverage to attain a competitive edge and long-term sustainability. This research contributes not only to the theoretical understanding of CSR in the context of engineering companies but also offers practical insights for industry practitioners. The implications of our study extend to the development of CSR frameworks tailored for engineering firms, emphasizing the mutual benefits of corporate responsibility to society and business success. In an era of growing social and environmental awareness, this paper underscores the pivotal role of CSR in engineering companies and presents a roadmap for harnessing CSR's potential to achieve a stronger brand, robust stakeholder relationships, and superior business performance.
Keywords: Corporate social responsibility, Institution-based view, Government regulations, Firm-specific advantages, Firm performance

1. Introduction

In today's complex and interconnected world, businesses, including engineering companies, face a growing demand to be socially responsible. Corporate Social Responsibility (CSR) has transcended from being merely a philanthropic endeavor to becoming a strategic imperative for organizations. It is no longer confined to annual reports or public relations exercises; it now occupies a central position in the business strategies of engineering firms. As the planet grapples with environmental degradation, social inequalities, and economic disparities, engineering companies play a pivotal role in shaping a sustainable and responsible future. The engineering sector, by its very nature, has a profound impact on society. From constructing infrastructure to developing cutting-edge technologies, engineering firms have the potential to create lasting change.

This paper delves into a pressing question: How does Corporate Social Responsibility in engineering companies influence brand image, stakeholder relations, and business performance? We embark on this inquiry recognizing that CSR has emerged as a driving force that not only shapes organizational identity but also affects bottom-line results.

The significance of our research stems from several critical factors. First and foremost, engineering companies are at the heart of modern society's development. They design, build, and maintain the physical and technological infrastructure upon which our lives depend. Consequently, their actions, decisions, and values have far-reaching implications.

Second, consumers today are not just looking for products and services; they are also scrutinizing the companies behind these offerings. Ethical and responsible behavior has become a deciding factor in consumers' choices. Engineering firms are not exempt from this shift. As a result, understanding how CSR impacts brand image is of utmost importance.

Third, stakeholder relations have moved beyond a simple transactional model. Effective engagement with stakeholders, including employees, communities, investors, and regulators, is critical for long-term success. CSR initiatives can significantly influence these relationships.

Finally, in a world increasingly focused on sustainable development, the business community is under pressure to contribute positively to societal and environmental well-being. CSR practices in engineering companies can be a driving force for positive change, and their effect on business performance is of paramount importance.

2. Impact Of Mandatory CSR Laws On Firm

In a highly competitive context, numerous elements exert effect on an organization's strategic decisions and subsequent consequences. The factors encompassed in this list comprise the place of origin, ownership structure, business size, industry circumstances, regulatory systems, taxation, leadership, value systems and culture, and social forces.

However, the corporate social responsibility (CSR) strategy is not immune to the impacts of these drivers (Saha, Cerchione, Singh, & Dahiya, 2020). Specifically, the extent of spending on corporate social responsibility (CSR) programs is influenced by several factors such as family ownership, company groupings, the availability of financial resources (Tewari & Bhattacharya, 2022), banks, and foreign institutional investors (Manogna, 2021).

When assessing the influence of corporate social responsibility (CSR) investments on the performance of firms, it is crucial to consider the sensitivity of the effect connection to factors such as consumer awareness, brand reputation, and financial outcomes (Fairhurst & Greene, 2022).

The existing body of literature examining the links between corporate social responsibility (CSR) and organizational performance yields varied and inconclusive findings. This is evident in the evaluations conducted by Barauskaite and Streimikiene (2021), Gupta and Das (2022), Kitzmueller and Shimshack (2012), McWilliams and Siegel (2000), Risi et al. (2022), and Velte (2021). Consequently, numerous studies have revealed that Corporate Social Responsibility (CSR) exerts a favorable influence on both internal aspects, such as employee dedication to the organization, and external aspects, such as brand establishment, corporate reputation, consumer intention to purchase, market valuations, and competitive advantage (Cherian et al., 2019; Goyal & Kumar, 2017; Pratihari & Uzma, 2019; Rettab, Brik & Mellahi, 2009). The available information about the association between the CSR strategy and innovation performance and shareholder interests is minimal (Kitzmueller & Shimshack, 2012; Ren, Huang, Liu & Yan, 2022).

In the Indian context, various stakeholders such as family business conglomerate groups, financial institutions, and foreign institutional investors exhibit a preference for endorsing corporate social responsibility (CSR) investments (Manogna, 2021). These entities perceive CSR initiatives as closely associated with consumer markets, which in turn result in enhanced sales, improved operating margins, expanded market share, and the cultivation of enduring customer loyalty. Simultaneously, corporate social responsibility (CSR), as a non-market strategy, facilitates the creation of societal influence by corporations. It is worth noting that with the implementation of the new Corporate Social Responsibility (CSR) regulations in 2014, there has been a noticeable rise in the allocation of funds towards CSR initiatives by Indian companies (Dharmapala & Khanna, 2018). This implies that the implementation of mandated corporate social responsibility (CSR) expenditures and disclosures has the potential to encourage a greater number of business owners to adopt these practices and actively contribute to the development of the nation.

In this study, we present a contingency perspective on the relationship between corporate social responsibility (CSR) and business performance. Specifically, we examine the consequences of India's compulsory CSR legislation (see Figure 1). Initially, we elucidate the correlation between corporate social responsibility (CSR) initiatives and the acquisition of distinct advantages by firms. Next, we will examine the causal impact of compulsory corporate social responsibility (CSR) expenditure on the financial performance of firms.

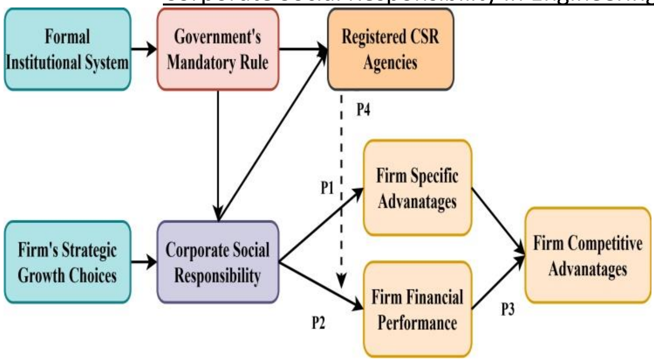

Fig. 1. A contingency view of the impact of mandatory CSR laws on firm performance

Thirdly, this paper aims to define the relationship between firm-specific advantages and financial outcomes in the context of firm competitive advantage. In this section, we will elucidate the manner in which the mediating role of registered CSR implementing agencies will influence the connection between compulsory CSR investment and the performance of firms.

3. CSR And Form Specific Advantages

According to strategic management literature, firm resources (Barney, 1991) and dynamic capabilities (Teece, Pisano & Shuen, 1997) significantly influence managers' strategic decisions and organizational performance. However, industry-specific effects vary due to demand, supply, and entry obstacles affecting competitiveness (Porter, 1980). Effective implementation of comprehensive CSR strategies can lead to firm-specific advantages. Rugman and Verbeke (2003) define firm-specific advantages as knowledge bundles, including intangible assets, learning skills, and privileged links with outside players (Adarkwah & Malonaes, 2022). Advantages include managerial skills, innovation, R&D capabilities, new technologies, brand recognition, financial reserves, and better network commitment. According to Adarkwah & Malonås (2022), developing market enterprises often create firm-specific benefits through CSR agendas.

China's mandatory CSR reporting has led to a 26% increase in green patents compared to non-reporting firms, with stronger effects for state-owned firms, firms with greater media coverage, and firms in stricter environmental areas (Ren et al., 2022). Globally, these advantages enhance brand recognition, efficient foreign subsidiary management, and overall success in the host country. Companies may prefer to expand internationally (Tatoglu et al., 2014). In the digital age, advanced technologies like cloud computing, internet of things, industrial internet, and network integration drive firm-level competencies (Dana et al., 2022; Gaurav et al., 2022; Madhu et al., 2022; Onyebuchi et al., 2022).

Surveys confirm Indian consumers' CSR awareness (Aparna, Amilan & Raj, 2022; Gupta, 2011; Gupta & Wadera, 2021; Mishra, 2012; Pratihari & Uzma, 2019; Gupta & Hodges, 2012). Indian customers favor socially responsible businesses and prioritize companies with legal and ethical duties for the environment and human rights (Gupta, 2011; Gupta & Wadera, 2021). CSR programs positively impact consumers' perceptions and purchasing intentions, resulting in positive attitudes towards brands and companies (Mishra, 2012; Ramesh et al., 2019; Aparna et al., 2022). Banks in the financial services sector support social and economic development through initiatives like financial inclusion, literacy, health camps, school adoption, village adoption, girl education, and scholarships. Banks can improve customer service by fostering trust and reputation among staff and management through these programs (Pratihari & Uzma, 2019). After the act was implemented, India's mandated CSR disclosure rules improved a company's reputation, image, and brand performance (Mitra et al., 2018; Sarkar et al., 2021).

We recommend investing in CSR projects to boost brand awareness, consumer impression, and purchase intention. Enhanced customer service, corporate reputation, and image can result in increased market share and competitive advantage. CSR investments offer firm-specific advantages based on internal factors (e.g., entrepreneur characteristics, firm size, socially-oriented innovations), industry dynamics (e.g., competition, technological advancements), and external environment (e.g., Gaurav et al., 2022; Onyebuchi et al., 2022).

3. CSR And Financial Performance

Organizations rely heavily on financial resources for strategy planning and execution. Generally, organizations with more slack resources (liquid assets) begin more CSR programs, whereas those with less financial reserves invest less. Socially responsible agendas impact a firm's market values and acquisitions (Fairhurst & Greene, 2022; Nangia, Agrawal & Reddy, 2011; Gomes & Marsat, 2017; Liang, Xie & Redding, 2017). The question of whether investing in CSR enhances corporate financial success is crucial, as past financial results significantly impact strategic decisions for the next year. Research indicates that CSR impacts firm performance in positive, negative, or neutral ways (Barauskaite & Streimikiene, 2021; Flammer, 2015; McWilliams & Siegel, 2000; Rettab et al., 2009; Servaes & Tamayo, 2013; Lee, Seo & Sharma, 2013; Youn et al., 2015; Zhu, Sun & Leung, 2013; Gupta & Das, 2022). Several scholars study the link between CSR mechanisms and takeovers (Fairhurst & Greene, 2022; Gomes & Marsat, 2017; Qiao & Wu, 2019).

According to Rettab et al. (2009), CSR strategy in Dubai positively impacts employee dedication, corporate reputation, and financial outcomes. Although advertising and publicity boost brand recognition, Servaes and Tamayo (2013) demonstrate a positive correlation between CSR impact and business value generation, indicating that socially responsible activities contribute value to the organization. Flammer (2015) found that CSR-related shareholder proposals improve operating performance, particularly labor productivity and sales growth. According to Awaysheh et al. (2020), top-performing category enterprises outperform their sector peers in terms of operating performance and market valuation.

The impact of CSR on corporate performance varies by industry due to internal and external factors. Airline oil prices, restaurant firm size, and hospitality and travel ethical leadership all moderate CSR and financial performance relationships, including corporate reputation (Lee et al., 2013; Youn et al., 2015; Zhu et al., 2013). Studies indicate that acquiring firms pay greater bid premiums to target organizations that participate in socially responsible programs in the M&A market (Gomes & Marsat, 2017; Qiao & Wu, 2019). Firms with high or low CSR ratings are more likely to be taken over and provide lower wealth returns, while those with middle CSR scores rarely become targets and create larger wealth gains (Fairhurst & Greene, 2022).

Numerous studies in India have examined the impact of mandatory CSR spending on financial performance, including cash holdings, cost of capital, earnings management, and stock market liquidity (Cherian et al., 2019; Mittal, Sinha & Singh, 2008; Oware & Mallikarjunappa, 2022; Panwar et al., 2022; Hasan, Singh & Kashiramka, 2022; Jadiyappa et al., 2021b; Prasad et al., 2022; Hickman et al., 2021). Results are mixed. For example, CSR strategies can improve financial outcomes by increasing market value-added and profitability (Mittal et al., 2008).

According to Cherian et al. (2019), firm-level corporate governance disclosures and products positively impact profitability, as measured by return on assets, equity, capital employed, and profit before tax.

Research indicates that mandated CSR regulations may enhance market values, cash position, return on assets, and Tobin's q (Jadiyappa et al., 2021a; Panwar et al., 2022; Oware & Mallikarjunappa, 2022). The value creation effect is stronger for international enterprises than domestic firms (Panwar et al., 2022). Similarly, performance results vary by industry. Consumer goods and services and heavy engineering have a favorable correlation between CSR disclosure and financial success, while energy, utilities, and healthcare sectors have a negative tendency (Hasan et al., 2022). According to Manchiraju and Rajgopal (2017), mandated CSR regimes, which require corporations to invest in social activities, result in a considerable drop in stock prices, while firms that spend more on advertising do not have any impact.

The required CSR rule has led to less earnings manipulations by corporations due to better corporate governance and reporting guidelines (Hickman et al., 2021). In response to the statutory CSR system, enterprises have increased accounting conservatism to reduce compliance-related expenses (Shaw et al., 2021). A firm's cost of capital is a strategic capital structure choice made by the chief financial officer, among other financial performance criteria. According to Prasad et al. (2022), CSR performance raises equity costs and lowers debt costs, but mandated CSR spending restrictions raise both. Roy et al. (2022) demonstrate that mandated CSR enterprises report increased stock market liquidity post-act implementation. This effect is more significant for enterprises with low institutional ownership, concentrated promoter shares, and foreign sales, but not for those linked with business organizations.

Although it is difficult to determine if CSR investment enhances firm operating and stock market performance, the research provides intriguing insights into the relationship between CSR spending and firm financial outcomes. Research indicates that CSR's impact on firm performance, including return on assets, market value, stock liquidity, and earnings management, is influenced by factors such as business group affiliation, promoter shareholding, foreign institutional ownership, firm size, international sales, advertising expenses, and industry type.

4. CSR Implementing Intermediary Agencies And The Local Firms

The existing body of literature on Corporate Social Responsibility (CSR), particularly in the Indian context, has not thoroughly examined the influence of CSR implementing agencies on the correlation between a company's CSR investment and its performance.

The management of social agendas within the focal organization is primarily carried out by its private trusts and foundations. However, a significant portion of corporate social activities in India is outsourced to third-party CSR intermediary agencies, as documented by Subramanian and Shah (2021). According to recent legislative regulations, it is mandatory for CSR agencies to undergo registration with the government. Moreover, it is imperative for focal companies to evaluate the performance of corporate social responsibility (CSR) organizations in order to verify the effective utilization of funding for social activities. Consequently, it is necessary to document the evaluation of the effects of corporate social responsibility (CSR) initiatives using a revised reporting format, namely CSR-2, commencing in the fiscal year 2020-2021 (India-briefing, 2022; Indian Express, 2021; Prakash, 2021).

Within this particular scenario, we have identified three distinct observations. The focal CSR firm and the CSR implementing agency have established a contractual partnership. Furthermore, the establishment of a contractual relationship between the principal, which refers to the central corporate social responsibility (CSR) firm, and the agent, which represents the CSR intermediary, can give rise to conflicts of interest and result in higher costs for management (Jensen & Meckling, 1976). Furthermore, the organization and execution of social activities by CSR agencies enables them to actively seek out confidential information, such as emerging markets and social feedback.

According to the existing body of literature on information asymmetry, private information has been recognized as a potential driver of acquisition gains and competitive advantage. This private information may encompass proprietary knowledge, legally protected information, non-reportable data, or insights derived from specialized assets or expertise (Bergh et al., 2019, p. 128). The establishment of trust, as a contractual agreement, between the central corporate social responsibility (CSR) firm and the CSR implementing agency has various consequences for the design, budgeting, communication, and reporting aspects of socially responsible initiatives (Reddy, Xie & Huang, 2016). Therefore, when choosing the appropriate strategic alliance partner, it is crucial to take into account factors such as networking experience, performance, and societal recognition (Gulati, 1998). In this context, the strategic alliance partner refers specifically to a CSR agency. According to Ireland, Hitt, and Vaidyanath (2002), the alliance partner's contractual relationship with the central CSR enterprise has the potential to generate a competitive advantage.

Given the stipulations of the mandatory Corporate Social Responsibility (CSR) act, it is necessary for implementing agencies to undergo registration with the government. Additionally, a designated CSR firm is responsible for reporting the impact assessment of CSR projects. In this context, the effectiveness of the formal institutional environment becomes crucial, encompassing aspects such as enhancing corporate governance, improving legal efficiency, and promoting transparency. Hence, the mediating role of CSR intermediate agencies may have an impact on the link between obligatory CSR investment and business performance. This impact can either strengthen or weaken the relationship, and it is contingent upon certain qualities of the firm and industry. For example, when proficient CSR agencies manage social projects, they can generate advantages that are exclusive to the organization. These advantages may include enhancing brand awareness and cultivating ties throughout society, ultimately resulting in an enhanced reputation and financial benefits for the focal firm.

5. Conclusion

This study utilized the institution-based theory to investigate the effects of the required corporate social responsibility (CSR) regime on firm performance within the Indian environment. Through an examination of India's legislative Corporate Social Responsibility (CSR) regulations and relevant scholarly works, we have proposed a contingency framework that explores the connection between a company's obligatory CSR expenditure and its performance.

From our standpoint, it is believed that the implementation of required social investment agendas has the potential to not only foster social progress within communities and improve the relationship between social governance and the government, but also provide additional benefits to the main CSR enterprise, such as bolstering brand reputation and strengthening networking capabilities. The financial performance and competitive advantage of a corporation are influenced by firm-specific advantages, as these benefits have an impact on the expenses associated with social programs. The mediation role of CSR implementing agencies will moderate the repercussions of the performance connection in this context. However, the overall performance of the main corporate social responsibility (CSR) firm is limited by certain features that are unique to the organization and the industry.

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