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Research Article

**THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY  
ON FIRM PERFORMANCE WITH MEDIATING EFFECT OF  
INNOVATION; EVIDENCE FROM PHARMACEUTICAL  
COMPANIES OF THAILAND**<sup>1</sup>Tiwa Park<sup>1</sup>Professor, Communication Arts, Bangkok University, Bangkok.[tsp.tiwa@gmail.com](mailto:tsp.tiwa@gmail.com)**Abstract:**

*The purpose of this study is to find the relation between corporate social responsibility and performance of pharmaceutical companies operationalize in Thailand. Moreover, the study also checked the role of innovation as a mediator in the between these variables. Questionnaires were distributed to check the respondent's view. Human resource and Marketing managers of pharmaceutical companies were selected as a population for the study. The results of study are based on 61 respondents. Results revealed that there is significant and positive relation between corporate social responsibility and firm performance. The innovation as a mediator strongly defines the relation between corporate social responsibility and firm performance.*

**Keywords:** *Pharmaceutical Companies; CSR; Firm Performance; Innovation.*

**Corresponding author:****Tiwa Park,**

Professor, Communication Arts, Bangkok University,

Bangkok.tsp.

[tiwa@gmail.com](mailto:tiwa@gmail.com)

QR code



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**INTRODUCTION:**

The concept of corporate social responsibility (CRS) arisen in 1960s with the aim to ensure that business should be conducted in an ethical way and the companies should be accountable for their environmental, social, and financial impact while considering basic human rights (1). A verity of activities can be involved in CRS like developing sustainable relationships with local communities, employees, suppliers, customers and other stakeholders. The businesses having purpose to fulfill the environmental and social goals rather than ignoring negative impact of their business on environment or society just to achieve their financial goals, are called social enterprises (2). The *Business Dictionary* defines corporate social responsibility as "A company's sense of responsibility towards the community and environment (both ecological and social) in which it operates. Companies express this citizenship, 1- through their waste and pollution reduction processes, 2- by contributing educational and social programs and 3- by earning adequate returns on the employed resources" (3). According to 'Socio economic' view CSR is a source of competitive advantage. They argue that CSR has become the efficient and successful instrument in marketing and a positive business strategy that helps the companies to achieve and maintain competitive edge over their competitors and therefore, also in improving their profit margins as well (4; 5). Companies should move from "doing well" to "doing better" and now they need "doing best" in order to survive in this highly competitive environment. For doing best they need to establish the strategies and perform their activities beyond the financial interest and need to realize their societal and moral responsibilities (6). In this era of competition if pharmaceutical companies want to grow up then they must focus on innovation which can be their competitive advantage. The importance of pharmaceutical industry in Thailand's economic growth, strength and diversity of challenges it's been facing, the research on CSR and innovation is an area of concern for both researchers and practitioners which invites a lot more to ponder and frowningly investigate the impacts of CSR strategy in firm performance. This study has primarily focused on performance of Pharmaceutical Companies. In broader scope this research will help pharmaceutical companies to predict their performance from the perspective of customer relations, human relations and financial benefits. CSR is taken as independent variable, firm performance is taken as dependent variables and these variables are checked with mediating effect of innovation.

**LITERATURE:**

In recent times, the concept of corporate social responsibility (CRS), has got extensive attention from researchers and managers by competitive advantage through sustainability which is becoming motive of almost every business if they want to survive (7). Corporate social responsibility is considered as connection between economic development, ecological safety and corporate sustainability (8; 9). According to (10), corporate social responsibility is a premeditated and profit-driven business response to ecological and societal issues which are arising through company's business or industrial activities. If an organization wants to remain economically sustainable in market for long time, the aspects of innovation and technology should have been respected (11). Social point of view necessitates organizations to operate sensibly toward all its major external stakeholders like suppliers, customers, government and society at large. Social perspective also demands to manage the organizational internal customers or employees in such a responsible way that they form value for the organization (12; 13; 11). Innovation plays a key role in sustainable development (14). In 1972, at UN conference on Human Environment, this term sustainable development was first time used (15), but it has got considerable attention after publication of Brundtland report in 1987 (16). This report indicated the significance of firms to make, upgrade, adapt, and diffuse those technologies which are ecologically sound (17). Progressively, the ecological matters were perceived as source of key change and turned out to be part of innovation research change (18; 19). To contribute corporate social responsibilities, innovation performance of the firm largely depends upon invention of new product or redesign of existing product's features as ecofriendly through ecofriendly process i.e. ecofriendly workplace, supply chain and marketing (20). The main focus of this literature review is towards the pharmaceutical companies because these make a large group of business enterprises globally. (21) argued that pharmaceutical companies can innovate much quicker than the other companies due to entrepreneurial style, different company structure dominated by owners and capabilities for innovation (22).

In recent years most of the research studies focused on relationship between corporate social responsibility (CRS) and firm performance which gives us understanding about financial benefits to the firm received by engaging in CRS activities. From theoretical point of view, it is quite possible to analyze the financial gains but empirically it is not possible to measure CRS benefits because of its

intangible resource nature (23). Moreover, it is very difficult to quantify the value contributed by CRS activities as it is mostly related to the products, production process or managerial activities which are not empirically measurable. According to (23), it is only competitive advantage which can be considered as CRS contribution. They introduced a “profit maximization CRS model” by using resource based framework. In this model, two companies produced same type of products and one of them has introduced an extra social feature to its product. By adding this social feature, the product has attracted attention of many consumers. The management has conducted cost-benefit analysis to evaluate the demand for the product and cost of resources to satisfy that demand. By analyzing marginal cost and return, they calculate that investment in CRS can increase in returns and profit to the firm. This looks good theoretically but it is much more difficult to measure the value to firm and to society which is added by CRS.

CSR often used by firms as a strategic tool to achieve their financial and other organizational gains. As studies proved that firm which are engaged in CSR activities, built good relationship with the internal and external stakeholders and this helps the organizations to build their reputation or image. If any mishap occurred the general public may show more sympathies towards firm due to its goodwill and relationship with the masses. It also helps the organization in attracting skilled workforce and achieving high retention ratio of the employees. The companies engaged in CSR activities also enjoy loyal suppliers and customers as well (24).

As main focus of this study is on CSR practices among pharmaceutical companies in Thailand, it is commonly argued that social and financial problems of the country are so rich in numbers that it is not possible for the state alone to overcome problems like unemployment, poverty, climate change, water shortage, terrorism, social injustice and violation of human rights etc. (25). Though governments and international donors are making development efforts from last many years in many countries of the world but have not succeeded in mitigating world poverty

(26). Therefore, this becomes important not only for the governments, civil society and NGOs but also for the corporate sector to come into arena of society development. Globalization has also increased more pressure on private business sector to be more socially responsible for contribution in community development (27). The movement of CSR was initially started in 1980's but in last decade it has become social license for the businesses to operate. Governments and even international agencies have made numerous efforts to make the companies socially responsible (28). The UN Global Compact (UNGC), is the leading international forum for insuring such activities as this forum has membership of more than 10,000 corporations from almost 130 countries of the world (UNGC). The main aim of this is to reform ways how the businesses deal socially with their main stakeholder and the impact of their social activities on society at large.

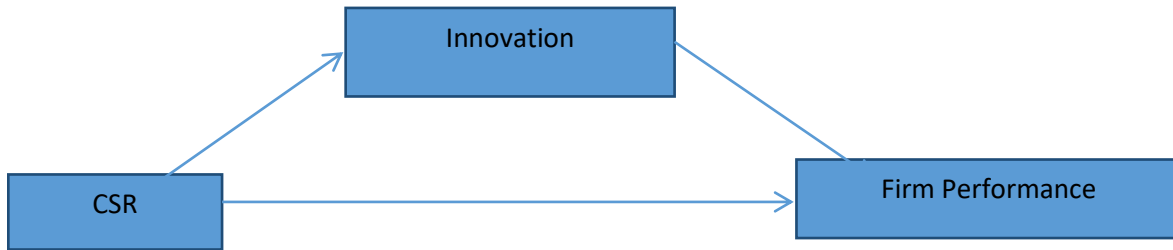
#### **MATERIAL & METHODOLOGY:**

In this study quantitative method is used with a survey method as the data collection method was done from pharmaceutical companies. This study is having three variables; one is independent, second is independent and third is mediating. CSR is taken as independent variable, firm performance is taken as dependent variable and innovation is taken as mediating variable. All constructs/items of the study were taken from the previous researches after the prior permission of the researcher because of their validity and reliability. All the constructs were built on 5 point likert scale. A pilot testing was conducted before the final questionnaire survey began. Pilot testing was done on 15 respondents to ensure the accuracy of the meaning.

#### **Sample Size and Procedure**

The sample size for this survey was 72 and the target population was only managers of pharmaceutical companies. Information was collected from 9 Pharmaceutical companies working in Bangkok. Total 61 questionnaires were returned to me. Few questionnaires were not returned and response rate was 84%.

**Conceptual Model:**



Figure#1

Hypothesis:

*H1: CSR significantly positively affects Innovation.*

*H2: Innovation significantly positively affects Firm Performance.*

*H3: Innovation mediates the relationship between CSR and firm performance.*

**RESULTS:**

**Reliability of the instrument**

**Cronbach's alpha**

TO measure the reliability and validity of the items which were taken from the previous researches Cronbach's alpha was used. Values of Cronbach's alpha were high ranging from 0.679 to 0.812. These values support the reliability of the present constructs/items/measures. Table 1 shows the values of cronbach's alpha.

**Table#1**

Variables/items	Cronbach's $\alpha$
CSR	.816
Innovation	.837
Firm Performance	.841

Out of 61 respondents (55%) were male and (45%) were females. Age group was divided into 4 categories 25-35, 36-45, 46-55 and 56-65. Out of 61

respondents (58.9%) respondents were from the age group of 25-35. Majority of the respondents were from this age group. Respondents from the age group of 36-45 were (24.5%). (13.2%) respondents were from the age group of 46-55 and a very few respondents (3.3%) were from the age group of 56-65. A majority of the respondents (47%) had working experience between 1- 5 years.

**Testing Hypothesis**

Regression analysis was carry out in hypothesis testing by SPSS in order to check the role of CSR on firm performance and meditaing role of innovation.

Model	Standardized Coefficient	t	R <sup>2</sup>	Sig
	Beta			
CSR	0.548	10.718	0.288	0.000

**Table 2 (Linear Regression test outcomes between CSR and innovation)**

**Dependent Variable: Innovation**

**From the finding, the table demonstrates that CSR exhibits significant effect on innovation ( $\beta = .548$ ,  $t=10.718$   $p<0.05$ ).**

**Table 2 (Linear Regression Test between Innovation and Firm performance)**

Model	Standardized Coefficient	t	R <sup>2</sup>	Sig
	Beta			
Innovation	0.418	9.29	0.240	0.000

Dependent Variable: Firm Performance

According to the findings, Innovation has significant direct relationship with firm performance ( $\beta=.418$ ,  $t=9.29$ ,  $p<0.05$ ) and brings probably 24% positive change.

**Table 3 (Multiple regression mediating test outcomes for Innovation)**

Model	Standardized Coefficient	t	R <sup>2</sup>	Sig
	Beta			
CSR	0.318	5.311	0.306	0.000
Innovation	0.312	5.162		0.000

Dependent variable: Employee Performance

According to the findings, (Innovation) positively mediates CSR and Firm performance relationship ( $\beta=.312$ ,  $t=5.162$ ,  $p<0.05$ ).

**CONCLUSION:**

The current study appears in the existing literature and sets up to look at the relationship between corporate social responsibility and firm performance. There was a highly significant relationship between all factors of CSR and firm performance. There is emerging trend of CSR in companies of Thailand companies; pharmaceutical companies are seen in top chart. The study found that CSR and firm performance are strongly interlinked and between their relation innovation act as a mediator. Innovation is the backbone for pharmaceutical companies as its competitive advantage for many of them. Moreover, the study found that there is significant and positive relation between innovation and firm performance. Consequently, based on the study it can be concluded that companies which are involved in social responsibility and keenly work on innovation, they perform better.

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