Corporate Political Activities and Corporate Reputation Relationship: The Moderating Role of Corporate Social Responsibility

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Abstract

This study explores the impact of non-market strategies on firm performance. We draw on and extend the domain of the interplay of corporate political activities and corporate social responsibility into the realm of organisational image and prestige research. We suggest that corporate political activity and corporate social responsibility interaction may enhance suppliers’ prestige-related evaluations of the firm by inhibiting the negative stakeholder impressions that might emerge from firms’ excessive political actions. Therefore, a self-administrated questionnaire was used to collect data from the suppliers of 102 Turkish listed firms. Our findings show that while overemphasis on corporate political activities can lead firms’ suppliers to have negative corporate reputation outcomes, the interaction with corporate social responsibility activities moderates this relationship and turns the perception of suppliers into more positive results. Some implications for achieving a delicate balance between corporate political activity and corporate social responsibility-related actions are provided.

Keywords: Corporate political activities; corporate social responsibility; corporate reputation; quantitative study; Turkey.

1. Introduction

The actors of a non-market environment such as government, political institutions, bureaucrats, pressure groups, local communities, non-profit (NPOs) and non-governmental organisations (NGOs), and the general public can influence firms’ performance (Aguinis & Glavas, 2012; Baron, 1995; Hadani et al., 2018; Mellahi et al., 2016). Thus, firms often conduct non-market strategies that are defined as “a firm’s concerted pattern of actions to improve its performance by managing the institutional or societal context of economic competition” (Mellahi et al., 2016, p. 144) to deal with a vast array of business risks and achieve better performance (Anastasiadis, 2014; Kamasak et al., 2019a). Non-market strategies are classified into two main strands (Frynas & Stephens, 2015; Liedong et al., 2015) corporate political
activities (henceforth, CPA) and corporate social responsibility (henceforth, CSR). CPA and CSR consist of many relational activities thus, they may create reputational impressions in stakeholders’ minds.

This paper empirically investigates the image and prestige-related impacts of CPA, which are still unclear (den Hond et al., 2014; Lock & Seele, 2016). Firms should consider not only profit-based activities but also social welfare by engaging in political processes and influencing policy decisions as corporate citizens (Scherer et al., 2013). However, they may frequently engage in excessive CPA actions “to shape government policy in ways favourable to the firm” (Hillman et al., 2004, p. 838). This situation may result in creating negative supplier perceptions as well as unfavourable stakeholder assessments, which in turn lead to lower organisational outcomes and threaten firms’ social and institutional legitimacy in the long run. Thus, the boundaries of CPA need to be known.

Additionally, this study explores the potential complementary effects between firms’ CPA and CSR, which are often seen as separate (Anastasiadis, 2014), on the way of creating institutional legitimacy and more favourable image and prestige perceptions in the minds of suppliers and other stakeholders. Given the fact that non-market elements influence firms’ stakeholder perceptions and organisational performance extensively (Ahmad et al., 2017; Alkan et al., 2022; Henisz & Zelner, 2012; Kamasak, 2013; Kamasak et al., 2017; Kamasak et al., 2019b; Lock & Seele, 2016), a thorough understanding of the interplay between CPA and CSR may help firms to formulate effective tailor-made strategies with the aim of achieving positive organisational outcomes in various institutional contexts. Therefore, in response to Frynas et al. (2017), who state that “non-market strategy research manifests itself inter alia in the failure to understand the substitution effects between company political and social strategies” (p. 560), this study adopts a more holistic approach where political and social aspects of the non-market environment are integrated, and their combined effects on supplier perceptions are examined.

2. CPA, CSR and corporate reputation

Historically, CPA and CSR were treated as two distinct practices with no link between them. Yet, an emerging stream of research theorises that CPA and CSR can be combined, and the interactive effects of CPA and CSR can result in more positive organisational outcomes since CPA and CSR complement each other. CPA and CSR are both relational constructs, and they include many “relational activities such as media campaigns, lobbying, philanthropy, and interactions with NGOs, government and bureaucrats” (De Roeck et al., 2016; Hillman et al., 2004) which can influence stakeholder evaluations of firms’ actions and create favourable or unfavourable perceptions of image and prestige that endow firms with competitive advantages (Cataltepe et al., 2022; den Hond et al., 2014; Kamasak, 2017; Kamasak et al., 2019b; Morsing & Roepstorff, 2015; Rindova et al., 2010).
The reputational impact of CPA is considered negative while the impact of CSR is deemed to be positive, thus conducting CPA and CSR simultaneously may send different signals to both internal and external stakeholders (den Hond et al., 2014). At this point, CSR may inhibit the negative image and prestige effects of CPA and provide social legitimacy and approval to the firm’s political connections (Anastasiadis, 2014). This is a well-known suggestion arising from the non-market strategy research (i.e. Liedong et al., 2015; Palazzo & Scherer, 2006; Scherer & Palazzo, 2011) but it is highly understudied. The reputational consequences of CPA and CSR interaction are evaluated predominantly from the lens of different external stakeholders, and relatively little effort has been directed towards studying the image and prestige impact of CPA and CSR interaction from suppliers’ perspective in the literature (De Roeck et al., 2016; den Hond et al., 2014). Yet, suppliers’ perception of what other external stakeholders (i.e. customers, competitors and society) think the organisation represents is among the important determinants of organisational outcomes, i.e. commitment to do business and business identification, which lead to higher organisational productivity and performance for firms (Carmeli et al., 2007; Ciftcioglu, 2010; Herrbach et al., 2004).

Studies (e.g. Crane, Matten, & Moon, 2004; El Akremi et al., 2018; Farooq et al., 2017) show that suppliers do not feel the impact of their business partner firm’s CPA and CSR in a direct and unidimensional way but rather a set of image and prestige related assessments in the minds of different stakeholder groups. According to social identity theory (Tajfel, 1978) which “is one of the most influential frameworks to explain and predict [how stakeholders respond]” (De Roeck et al., 2016, p. 1142) to value attributed to their organisation by outsiders, suppliers are likely to “maintain their [business relations] in firms that provide them with a sense of prestige” (Guerrero & Challiol-Jeanblanc, 2017, p. 1200) as well as financial advantages. While firms engage actively (sometimes excessively) in CPA with non-market partners, i.e. government or local authorities, the firms might be associated with political over-embeddedness and unethical, immoral or corrupt practices (Luo, 2006). This situation may tarnish the firm’s reputation and create unfavourable impressions on suppliers. In contrast, CSR creates a positive image in the minds of stakeholders and facilitates economic transactions through the prominence of the organisation and perceived “beliefs about an organisation’s distinctive characteristics and/or behaviours” (Dowling, 2016, p. 209). Therefore, we hypothesise that:

H1: There is an inverse relationship between excessive CPA and a firm’s perceived corporate reputation of suppliers.

Firms may align their CPA and CSR to create a more positive image and prestige perceptions among external stakeholders. In turn, suppliers’ assessments of a positive outsider perception “foster [their] willingness to do business and identify themselves with the organisation” (De Roeck et al., 2016, p. 1142) which are critical to firm performance and long-term competitiveness. At this point, a firm’s CSR practices that are conducted simultaneously with CPA may inhibit the negative image and prestige effects of CPA and provide social legitimacy to the firm.
and approval to the firm’s political connections (Anastasiadis, 2014; Boddewyn & Buckley, 2017; El Akremi et al., 2018). Thus, it is hypothesised that:

H2: The conduct of CSR practices simultaneously with CPA moderates the relationship between CPA and the perceived corporate reputation of suppliers.

3. Methods

The data were collected by a self-administered questionnaire. A total of 446 supplier firms were approached, but usable questionnaires were obtained from 102, yielding a response rate of 26%. Only one top manager from each supplier firm answered the questionnaires (Kamasak, 2015; Kamasak et al., 2016). The top managers were the decision-makers in selecting firms with which the company should do business. The number of full-time employees ranged from 42 to 10.206. The mean number of employees was 361.08, and the standard deviation was 119.82.

<table>
<thead>
<tr>
<th>Table 1. Firm size and age</th>
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<tr>
<td>n</td>
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<td>Firm size</td>
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<td>Firm age</td>
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The number of years in business ranged from 6 to 72. The mean number of years in business was 29.36, and the standard deviation was 23.31. Research (e.g., Cataltepe et al., 2022) revealed that firms which have been in business for longer periods of time and have been larger in size emitted a more favourable image to society. Additionally, Porter (1991, p. 98) argues that “industry occupies an inherently central role, either direct and/or indirect in determining the sustainability of strategic positioning and hence of performance. In other words, industry forces affect the sustainability of above average performance against bargaining and against direct and indirect competition”. Studies show that firms which operate in dynamic business environments are more likely to use their maximum capacity and create better performance. Therefore, we controlled firm age, firm size, industry and environmental effects. Industry effects were controlled by five items of Porter’s (1980) five forces framework, and environmental effects were controlled by two items of Jansen, Vera and Crossan’s (2009) environmental dynamism scale.

Information regarding the participant firms’ age and size is shown in table 1. The primary business activities of the participant firms were automotive, construction, food, computer and software, logistics and transportation, drugs, and oil and petrochemicals (see table 2).

<p>| Table 2: The primary business activities of the participant firms. |
|-----------------------------|------------------|</p>
<table>
<thead>
<tr>
<th>Business activity</th>
<th>Frequency</th>
<th>Percentage</th>
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</table>
[21]
The questionnaire included 48 questions, of which three questions were for demographics. Responses to the items were recorded on a 5-point Likert-type scale. While corporate political activities were measured by 18 items that were adopted from Hillman and Wan’s (2005) scale, corporate social responsibility actions were assessed by 12 items taken from Turker’s (2009) corporate social responsibility scale, which was developed in Turkey according to the cultural context of the Turkish business environment. The items of corporate reputation were adapted from Newell and Goldsmith’s (2001) 8 items corporate credibility scale. The reliability and validity checks were done, and correlations between variables to assess the presence of multicollinearity were calculated.

4. Analyses and results

The hypotheses were tested by multiple regression analysis and the moderated method. A threestep hierarchical regression analysis was used (see table 3). In model 1, the control variables which are firm age, firm size, industry structure factors and environmental dynamism, are entered and a significant share of the variance in corporate reputation perception of suppliers (Adj. R² = 0.165; F= 2.843, p< 0.001) is found. This means nearly 16 per cent of the variation in perceived corporate reputation was explained by the control variables. Among all control variables, firm age (β= 0.163, p< 0.05) and firm size (β= 0.149, p< 0.01) seemed to be the most influential ones. These findings corroborate the previous literature (e.g. Rindova, 2010) that suggests firms which have been in business for longer periods of time and have been larger in size may create a more positive corporate reputation. In model 2, CPA is entered and a significant inverse relationship between CPA (β= –0.164, p< 0.01) and perceived corporate reputation is observed. Therefore, H1 is supported. In model 3, the interaction of CPA and CSR was entered and the inverse relationship between CPA and perceived corporate reputation turned into a positive significant but relatively weak relationship. This result indicates that CSR moderated the CPA and perceived corporate reputation relationship, partially supporting H2.

Table 3: The results of regression analyses.

<table>
<thead>
<tr>
<th>Industry</th>
<th>CPA</th>
<th>CSR</th>
<th>Perceived Corporate Reputation</th>
</tr>
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<tbody>
<tr>
<td>Automotive</td>
<td>18</td>
<td>17.8</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>17</td>
<td>16.7</td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td>15</td>
<td>15.1</td>
<td></td>
</tr>
<tr>
<td>Computer &amp; Software</td>
<td>11</td>
<td>10.9</td>
<td></td>
</tr>
<tr>
<td>Logistics &amp; Transportation</td>
<td>10</td>
<td>9.9</td>
<td></td>
</tr>
<tr>
<td>Drugs</td>
<td>9</td>
<td>8.9</td>
<td></td>
</tr>
<tr>
<td>Oil &amp; Petrochemicals</td>
<td>8</td>
<td>7.8</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>12</td>
<td>12.9</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>102</td>
<td>100.0</td>
<td></td>
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</tbody>
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**Variables**

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<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
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<tbody>
<tr>
<td>Firm age (log)</td>
<td>0.163*</td>
<td>0.173**</td>
<td>0.169**</td>
</tr>
<tr>
<td>Firm size (log)</td>
<td></td>
<td>0.166***</td>
<td>0.158***</td>
</tr>
<tr>
<td>Industry structure forces</td>
<td>0.149**</td>
<td>0.059*</td>
<td>0.047*</td>
</tr>
<tr>
<td>Environmental dynamism</td>
<td>0.052*</td>
<td>0.158**</td>
<td>0.143**</td>
</tr>
<tr>
<td>CPA</td>
<td>0.137**</td>
<td>-0.164**</td>
<td>-0.135**</td>
</tr>
<tr>
<td>CPA X CSR</td>
<td></td>
<td></td>
<td>0.072***</td>
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<tbody>
<tr>
<td>$R^2$</td>
<td>0.179</td>
<td>0.264</td>
<td>0.297</td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>0.165</td>
<td>0.258</td>
<td>0.282</td>
</tr>
<tr>
<td>$\Delta R^2$ (adjusted)</td>
<td>–</td>
<td>0.093</td>
<td>0.024</td>
</tr>
<tr>
<td>F -value</td>
<td>2.843**</td>
<td>3.246***</td>
<td>3.367***</td>
</tr>
</tbody>
</table>

N= 102
*p<0.05; **p<0.01; *** p<0.001 (two-tailed)

5. **Conclusion and discussion**

Our results show that although an excessive amount of CPA might lead to adverse reputational outcomes, a simultaneous interaction with CSR can change the direction of the relationship. CPA and CSR may lead to different reputational effects (den Hond et al., 2014; Frynas et al., 2017). In the simultaneous conduct of CPA and CSR, while overemphasis on political activities may result in negative impressions of stakeholders about the firm (Lock & Seele, 2016; Scherer & Palazzo, 2011), the benevolent dimension of CSR may weaken the unfavourable reputational effects of CPA, thus create a more desirable “corporate profile” (Liedong et al., 2015) and enhance suppliers’ corporate reputation perceptions.

In an “integrated international economy and a non-market environment made up by fragmented international political systems” (Kobrin, 2015, p. 262) and societal demands, firms have to consider every single influential element systematically to deal with a vast array of business risks. For example, sound and effective management along with a high technology production capability of a petroleum company may not result in superior economic performance if the company does not create a positive image among stakeholder groups outside the organisation and cannot obtain necessary permissions from the government agencies at the same time to continue its downstream and upstream operations (Frynas et al., 2017). Moreover, institutional legitimacy may depend on positive views stemming from firms’ CSR activities which can “discourage public officials from subjecting firms to administrative obstacles” (Liedong et al., 2017, p. 611). Boddewyn and Buckley (2017) describe this situation by using the example of a casino company in the US which mixed philanthropy and lobbying activities in a way that helped them obtain Massachusetts’s first gambling license.
Within the context of alignment, the potential complementary effects of CSR and CPA on firm performance may be examined through two different dimensions offered by strategy research (Hill & Birkinshaw, 2014; Simsek et al., 2009): the balance dimension and the combined dimension of CSR and CPA. While the balance dimension means high (or low) CSR should be coupled with low (or high) CPA, the concept of the combined dimension suggests aiming for the highest levels possible for both CSR and CPA (that is, the maximum use of both CPA and CSR). Thus, the optimal point may change along with using a resource portfolio, and it is not always the point where there is a certain balance between CSR and CPA (den Hond et al., 2014). Also, Ahuja and Yayavaram (2011) highlight that rent-seeking CPA “may well imply a weakening in the development of some other productive capabilities and thus weaken firms’ ability to earn other forms of rents such as efficiency and innovation rents” (p. 1648).

In a sudden change in the political atmosphere, the original relationship-based capabilities may become increasingly obsolete and result in cost inefficiency and underdevelopment of market-based skills (Cebeci et al., 2021; Galang, 2012; Yesildal & Kamasak, 2021). This situation may threaten firms’ sustainability in the long run, especially in complex business environments where political, economic and social dynamics shift rapidly, and competition becomes fiercer.

References


