

The Relationship between Corporate Social Responsibility and Corporate Reputation in Serbia

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Corporate social responsibility (CSR) is a concept that is based on the idea of a balance between economic, social, and environmental goals of companies. In contemporary business, companies need to be responsible not just to their shareholders, but to broader stakeholders, where employees, customers, investors, suppliers, local community, and natural environment are mostly affected. Also, CSR is seen as a concept that can enhance different financial and market performances, where corporate reputation is gaining more and more attention. Corporate reputation is seen as one of the most important companies' assets, and it has a great influence on business success. Based on the stakeholder theory and resource-based theory, the authors of this paper investigated both concepts to increase the body of knowledge and provide some practical implications for companies. The paper aims to investigate the relationship between CSR and corporate reputation. The problem of the research is defining of a relationship between CSR and corporate reputation in companies in Serbia, and between specific dimensions of CSR and corporate reputation. The methodology used in the research obtained the analysis of available literature and the empirical analysis of the data on CSR and reputation. The sample was created from 73 large private processing companies in the Republic of Serbia. The authors used PLS-SEM method to investigate the proposed relations, i.e., that CSR has a positive relation with corporate reputation. This methodology was for the first time conducted in the business environment in Serbia, which will enhance the possibility of comparison with the results from other countries. The results pointed that CSR, as a higher-order construct, has a positive relation with corporate reputation, like all dimensions of CSR (responsibility to employees, customers, local community, environment, suppliers). At the end, the authors proposed theoretical and practical implications and limitations of the research.

Keywords: *Corporate Social Responsibility; Corporate Reputation; Corporate Image; Processing Industry; PLS-SEM.*

Introduction

Actual changes and risks in political, economic, social, environmental, technological, and cultural spheres pointed to the shortcomings of previous management and business concepts focused exclusively on profit, as a short-term goal. Environmental protection and social sensitivity are increasingly becoming an imperative of the new business policy and one of the most important indicators of the paradigm shift in thinking about social development. The current directions of development and management approach have proven to be insufficient when it comes to long-term survival, growth, and development. As a response to that, the concept of corporate social responsibility (CSR) is increasingly understood as an indicator of the success of companies and as an opportunity to achieve the concept of sustainable development (Berber *et al.*, 2019; Grubor *et al.*, 2020).

Corporate social responsibility is related to various business processes and outcomes, as financial performance (Wang & Sarkis, 2017; Akben-Selcuk, 2019; Javed *et al.*, 2020; Awaysheh *et al.*, 2020), employees' behavior (Lee & Chen, 2018; Lu *et al.*, 2020; He *et al.*, 2021), customer satisfaction (Chang & Yeh, 2017; Lee *et al.*, 2020; Zhang *et al.*, 2020), corporate image and reputation (Eberle *et al.*, 2013; Lin-Hi & Blumberg, 2018; Javed *et al.*, 2020; Perez-Cornejo *et al.*, 2020), reaching and increasing

environmental performance (Nazari *et al.*, 2017; Chuang & Huang, 2018; Xu & Peng, 2018; Kraus *et al.*, 2020; Aleksic *et al.*, 2020). Among the beforementioned, corporate reputation is often seen in a relationship with CSR activities (Esen, 2013), and it is the result of reliable behavior and has a positive effect on employees and consumer interests. Corporate reputation is seen as “the perception of every stakeholder that their expectations have or have not been met by the firm and the only way that stakeholders can assess whether this has occurred is through the information disclosed by the company” (Baraibar-Diez & Sotorrio, 2018, p. 7). Corporate reputation is very important for the market success of modern companies (Vercic & Coric, 2018), and since it represents “the degree to which stakeholders perceive a company as “good” or “bad” (Lin-Hi & Blumberg, 2018, p. 185), more and more studies are putting CSR, as responsible business practices, and corporate reputation in one model to investigate relations. In many previous scientific papers, it has been confirmed that CSR has effects on corporate reputation. Therefore, the authors of this paper decided to investigate this relation on a sample of companies in Serbia, where there is a lack of such empirical research. Also, in previous period, during the transition process in Serbia, CSR was not implemented at high level. Thus, usually, many companies practiced unethical business activities regarding environment degradation, employees' rights, financial fraud, and they

were focused exclusively on profit gain (Sekulic & Pavlovic, 2018). Ivanovic-Dukic (2010, p. 39) stated that in Serbia, there was still a low degree of implementation of certain elements of social responsibility and that most companies performed periodic sponsorships and donations in order to raise reputation in society, media and government, but above all with business partners and customers. According to the mentioned author, CSR in Serbia should include more topics such as raising working conditions, rights and standards of employees, professional development, relationship with consumers, suppliers, trade unions (Ivanovic-Dukic, 2010, p. 39–40). Abovementioned statements and previous business practice also motivated the authors of this paper to investigate in more details the relationship between CSR and corporate reputation.

The aim of this paper was to investigate the relationship between CSR and corporate reputation in Serbian companies in order to minimize existing research gap with the respect to the stakeholder theory. In the most of the previous studies the CSR construct has been investigated as an integrated variable, while in this research the CSR will be investigated as the second order construct, but also through the dimensions that constitute the CSR. *The subject of research* is the concepts of CSR and corporate reputation, but also the relationship between these two concepts. Based on the data obtained from company's management during the research conducted in the period from November 2019 to June 2020 in the Republic of Serbia, it was investigated whether there is a relation between the concept of CSR and corporate reputation. A total of 73 big private companies from the processing industry participated in the research. By reviewing the available literature on CSR, and corporate reputation, as well as through data analysis, the authors tried to point out the relationship between the mentioned concepts, and whether through the implementation of CSR companies can improve their corporate reputation. *The problem of the research* is defining of a relationship between CSR and corporate reputation in companies in Serbia. If there is a relationship, is it direct and positive? Also, which dimension of CSR is related to reputation? *The novelty of this research* can be seen from three aspects. First, this paper tested the CSR and corporate reputation questionnaires in a context of a developing economy. Validity of the instruments is important for the future research in the area of CSR, too. Second, in the most studies researchers investigated CSR as one formative variable. This research will explore the relationship between CSR and reputation, but also between specific CSR dimensions and corporate reputation. Here it is important to emphasize that the authors of this paper used a stakeholder approach, so the CSR construct was investigated as a second-ordered construct created from several dimensions. Third, investigation of the proposed relationship is new in Serbia, since there are very small number of research papers that dealt with the theme. Introduction of the proposed questionnaires, managerial perspective of the research, and data for Serbia will enable international comparison with other countries in the region (Central and Eastern Europe) regarding CSR and its relations with other concepts (i.e. reputation). This is very

important issue in the investigation of the level of development of CSR, especially for Serbian companies.

The paper is composed of three interconnected parts. In the first part, the author discusses the prevailing views on corporate social responsibility and corporate reputation. The second part of the paper refers to the explanation of the research methodology and analysis of empirical data obtained during the research, related to the dimensions of CSR and corporate reputation. The third part of the paper included the conclusions of the research, emphasizing the connection between CSR and corporate reputation as an intangible resource.

Theoretical Background

Corporate Social Responsibility

The concept of CSR has changed historically. From the moment when it was not given importance, until today, when the great emphasis is placed on the socially responsible business of every and especially large international companies, CSR is the basis for many management decisions. In addition to setting economic goals, the broader role of the company is taken into account, i.e., its impact on the society and the environment (Van Beurden & Gossling, 2008; Baumgartner, 2014; Berber *et al.*, 2014; Ivanovic-Dukic & Lepojevic, 2015).

CSR implies that the company independently and voluntarily engages in activities aimed at interdependence, connection, and conditionality of its development policy and environmental protection, respecting environmental principles in their development (Berber *et al.*, 2019). Social responsibility in business implies a responsible and ethically acceptable attitude of the company towards all its stakeholders, encompassing the areas of environmental protection, as well as its employees, its consumers, and their interests. In addition, it protects the interests of business partners with whom it cooperates, as well as competitors and society, as a whole. In this regard, authors Mitrovic and Mitrovic state that “the imperative concept of sustainable development has a very strong environmental dimension, which is related to the fact that the discussion on sustainable development was initially based on issues of environmental modernization” (Mitrovic & Mitrovic, 2019, p. 82). According to Aluchna & Roszkowska-Menkes (2019), CSR implies that “social, ethical, and environmental aspects are integrated into corporate strategies on a voluntary basis and in cooperation with stakeholders. CSR offers a multi-dimensional view on corporate performance, including financial, social, and environmental components that lead to the creation of shared value for shareholders and stakeholders” (p. 349). It is the characteristics of today's market and the high level of competitiveness that have led to a situation where companies build their recognition and competitiveness, in addition to the quality of their products and services, by treating their social environment, developing trust, sense of belonging and commitment (Rettab *et al.*, 2009).

CSR was advancing through the time, and until now there have been developed different theoretical approaches of this concept. The most important and widely investigated theories are instrumental theories, institutional

theory, political economy theory, legitimacy theory, and stakeholder theory.

At the beginning of the development, shareholder theory dominated with the idea that the responsibility of the firm is to create profit and wealth for their owners, shareholders. This theory belongs to the group of instrumental theories, where economic goals were seen as the only goals of a company. Shareholder theory suffered many criticisms because the interests of other stakeholders were neglected (Maric *et al.*, 2021, p. 3). Related to the shareholder theory, agency theory also relates to CSR concept. According to this approach, an agent (manager) is responsible for business operations of the company which belongs to principal (owner). Managers are responsible for the whole business process, but also for the relationship between the company and its environment and stakeholders (Mehedi & Jalaludin, 2020). Besides, political economy theory and legitimacy theory are also important theoretical approaches in CSR development agenda. “The political economy theory acknowledges the vital role of the socio-political and economic system of a country in shaping the value system between corporations and society given that this value system stimulates normative pressures on corporations to participate in CSR activities” (Mehedi & Jalaludin, 2020, p. 308), while legitimacy theory “offers a position of equilibrium where corporations maximize their shareholders’ wealth along with considering the interests of the community” (Mehedi & Jalaludin, 2020, p. 309). According to the stakeholders’ theory, a company needs to be responsible to all stakeholders, i.e., all people, individuals, and legal entities as well as organizations and groups affected by the company’s activities. “The strategies and financial performance of an organization are affected by different stakeholders like shareholders, management, employees, local community, financial institutions, consumers, suppliers, etc. CSR is composed of multiple stakeholder-related activities, including employee relations, diversity management, corporate governance, environmental protection, community development, consumer relations” (Maric *et al.*, 2021). Another point of view where CSR is also taken into account is resource-based theory, “that examine the link between organizational internal characteristics and its performance. The differentials in performance are explained primarily by the existence of firm-specific resources that are valuable, rare, not easily imitated by rivals and not easily bought or sold on markets” (Branco & Rodrigues, 2006, p. 116). Resource-based theory contributes to the analysis of CSR by offering important insights on how it influences financial performance. “First, they focus on performance as the key outcome variable; second, they explicitly recognize the importance of intangible resources such as know-how, corporate culture and reputation” (Branco & Rodrigues, 2006, p. 120).

At the end, institutional theory is important for many developing countries, “because corporations may show reactive behavior toward social obligations, different regulative, normative, mimetic and cultural-cognitive pressures are directed towards corporations to implement CSR in their business” (Mehedi & Jalaludin, 2020, p. 316). Institutional theory presents changes that organizations perform in order to respond to different pressures that come from institutional level, and those are coercive isomorphism

(shareholder influence, employee influence, and government policy), mimetic isomorphism (organisations trying to copy other organizations’ practices, mainly to obtain competitive advantage in terms of legitimacy), and normative isomorphism (relates to the pressures emerging from common values to adopt particular institutional practices) (Fernando & Lawrence, 2014, p. 163–164).

Among all mentioned, the authors of this paper grounded their research on the basis of the stakeholder approach and resource-based theory, “since this theory implies that all stakeholders that can be affected by the organizations’ activities should, in fact, be taken into account. This is also the approach that is commonly used in various studies around the world” (Maric *et al.*, 2021, p. 3), and since resource-based theory connects CSR and reputation.

Based on the stakeholder theory, CSR communication is an important factor since it is used to obtain “legitimacy from stakeholders, as well as a way to satisfy interests of a heterogeneous group of stakeholders that influence its survival” (Baraibar-Diez & Sotorrio, 2018, p. 15). Socially responsible company behavior refers both to the contribution to the community and through refraining from activities such as unethical behavior, corruption, fraud, and the like that would negatively affect employees, the population, and the environment (Smith & Langford, 2009). The implementation of these activities implies a long-term and continuous orientation of companies.

Bearing the above-mentioned in mind, it is obvious that many CSR activities and practices bring many benefits to a wide range of stakeholders, but also to the company itself. If properly managed, information about companies’ CSR activities can be used for building reputation, and on that base, the stronger position of the company on the market.

In the next part of the paper, the authors discussed the concept of corporate reputation.

Corporate Reputation

An important aspect of an organization’s business is its corporate reputation. It becomes the most significant asset in modern management (Jukic, 2019, p. 12). It can be presented as a perception of the organization and the key dimensions of its performance by stakeholders. “CSR is a perceptual representation of a company’s past actions and prospects that describes the firm’s overall appeal to all of its key constituents when compared with other leading rivals” (Fombrun, 1996, p. 72). In addition to this definition, corporate reputation can be presented in a more precise way, from the perspective of a manager. It represents the aggregation of identity and image (Wartick, 2002, p. 376). In any case, corporate reputation shapes consumer attitudes and company perceptions of the market (Fombrun & Shanley, 1990). It allows stakeholders to evaluate the organization, and to clients to make comparisons between different organizations. Therefore, corporate reputation can also be defined as the collective perception of a corporation over time (Barnett *et al.*, 2006). Corporate reputation can be viewed as a combination of image and identity (Esen, 2013).

If the attention is dedicated to the definition of CSR, as an approach that aims to balance environmental, economic, and social goals, we can conclude that CSR is certainly one

aspect of how organizations try to create a good business image, and thus CSR can be seen as a public relations strategy (Vercic & Coric, 2018). Initially, CSR was part of public relations (PR) activities, but in modern terms, it has surpassed PR, although PR still plays an important role in the creation of corporate image. Namely, a possible way to achieve and improve the image of the organization lies in the use of social responsibility and gaining a positive reputation over time.

Although the image is often interpreted as the perception that people have of the external, visible characteristics of companies and brands, it also includes those business components that are not externally visible. Through the corporate image, the company can present to the public all dimensions of its business and activities: what and how it does, what it stands for in the business, what are its products, who are its consumers, what are the economic indicators and what is its reputation (Zerfass & Viertmann, 2017). Strengthening a positive image in the public leads to an improvement in the competitive position of the company and an increase in its long-term profit because a company with a better-positioned image on the market has greater value for market participants.

Creating an image that would present a corporate identity is a complex and time-consuming job, with public relations playing an exceptional role in it (Fuoli, 2018). One of the most important advantages of a good corporate image is the development of public support, which also creates a foundation for the easier overcoming of periods of market instability. In their work, the authors Rettab, Brick, and Mellahi (2009) expanded the scope of observing the relationship of CSR to organizational performance, so in addition they also observed corporate reputation. The goal of companies that apply the concept of socially responsible business is to build their business image not only on economic activities but also on relation to the environment in which they operate (Du *et al.*, 2010). "Many companies justify CSR actions because they would improve a company's image and establish a good reputation" (Hur *et al.*, 2014).

Based on the assumption that CSR activities can be used in terms of building and increasing corporate reputation, the authors investigated previous research focusing on the relation between CSR and reputation.

Relationship between CSR and Corporate Reputation

Several previous research focused on the CSR-corporate reputation link. Most of them confirmed positive direct relations, while in some that relation was mediated or moderated (Melo & Garrido-Morgado, 2012; Lin-Hi & Blumberg, 2018; Aguilera-Caracuel & Guerrero-Villegas, 2018; Rothenhoefer, 2019; Perez-Cornejo *et al.*, 2020).

Many studies were made on a sample of external data providers related to CSR. For example, consumers as respondents are often used respondent group, since corporate reputation is related to image, public relation, and marketing of a firm. On the other hand, there are studies that used organizational data provided by world accepted research firms (i. e. Fortune). Therefore, the first part of theoretical analysis was dedicated to the analysis of research based on external data and consumers as

respondents. Gatti *et al.* (2012) based on the answers of 130 respondents from Italy found that a stronger perception of CSR by customers positively enhances the corporate reputation. Esen (2013) state that CSR activities affect the drivers of corporate reputation that have a positive impact on corporate reputation. Many important determinants of corporate reputation are classified as "emotional appeal, products and services, vision and leadership, workplace environment, financial performance, and social responsibility in general" (p. 144). Also, Esen (2013) emphasized that CSR enables firms to improve reputation with a broad range of stakeholders including employees, customers, suppliers, competitors, bankers, and investors.

Eberle *et al.* (2013) pointed out that CSR can improve corporate reputation by using interactive channels to communicate about CSR activities. On a sample of 205 respondents from two European universities, the authors found that message credibility increases corporate reputation, so as the identification with the company. Based on a sample of 867 consumers in South Korea, Hur *et al.* (2014) also identified that CSR has a significant direct positive effect on corporate reputation. Besides, the CSR-corporate reputation link is mediated by corporate brand credibility. This means that relations are direct, but also indirect, through different mediators. Concerning communication, Vogler and Eisenegger (2020) investigated the influence of CSR communication through Facebook and news media coverage of CSR on corporate reputation in 68 Swiss corporations. "The results of this study showed that the salience and tone of news media coverage of CSR were positively related to corporate reputation, where reputation was still strengthened even in the face of negative publicity. There is no effect of CSR communication through Facebook on corporate reputation. The legacy news media were influential in determining how the public evaluates corporations in the digital age" (Vogler & Eisenegger, 2020, p. 1).

Baraibar-Diez and Sotorrio (2018) investigated the relationship between CSR and reputation, with mediation of analysis of transparency. They made a structural equation model based on a sample of 22 Spanish companies in the period from 2002 until 2015. They found that the relation between CSR actions and reputation is mediated by transparency, which is based on "disclosure of information and aims to provide stakeholders with accurate information to make rational decisions" (Baraibar-Diez & Sotorrio, 2018, p. 15). Bianchi *et al.* (2019) also found an indirect relationship between CSR activities and corporate reputation. They found that perceived CSR has a significant direct effect on reputation, and an indirect effect on purchase intention and perceived reputation, through customer loyalty. They stated that "CSR is not an instrument to handle crises or an insurance policy against crises. It is a relational strategic approach that the firm adopts concerning society and its environment" (p. 210). Reputation is perceived as a cumulative and collective judgment, which is built over time. Therefore, CSR can improve the process of enhancing corporate reputation in long term. Similarly, Jeffrey *et al.* (2019) investigated the relation between CSR behaviors and corporate reputation

on a sample made of companies from the Fortune 500 largest companies. It has been found that CSR is an important factor of a firm's reputation, measured by Fortune's Most Admired Companies list (companies in the top 50 percent of each industry are considered as admired, while the bottom 50 percent are labeled as contenders). The authors suggested that companies should enhance their CSR activities to improve their corporate reputation. Similarly, Kelley et al. (2018) noted that "CSR investment is likely to exert a positive influence on stakeholders and the general public's evaluation of firms. Corporate reputation is seen as a mediator in this relationship, wherein CSR leads to reputational value in the form of supporting behaviors from stakeholders needed to enhance financial performances" (p. 186). Based on the sample of the top 150 companies in the RepTrak data and listed in the KLD ratings, Rothenhoefer (2019) proved that a positive reputation was associated with simultaneously conducting positive CSR-related activities and avoiding misconduct, while either lacking positive activities or committing misdeeds was detrimental (p. 149).

On the other hand, some studies are based on internal stakeholders, i.e. managers and employees, who are respondents. The important issue in this kind of research is that managers are professionals that are engaged in different business processes, and that they can give relevant data since they are decision-makers and they can understand the whole situation of one organization. Employees are important stakeholder because they experience business practice of a company, and CSR activities, too. In this group of studies, Yadav et al. (2018) found a positive relation between CSR and corporate reputation, while they inserted employee trust as a mediator. The analysis based on 210 employees from Indian automobile companies showed that CSR enhances corporate reputation, while it also enhances employee trust in companies, which in turn can be a base for building corporate reputation.

Javed et al. (2020) examined the effects of CSR on corporate reputation and financial performance based on a sample of 224 senior-level Pakistani managers. The authors used structural equation modeling to analyze the proposed relationships. The results reveal that socially responsible initiatives for disparate stakeholders significantly and positively influence corporate reputation and financial performance. Moreover, CSR–reputation and CSR–performance direct relationships were found to be negatively moderated by responsible leadership. It suggests that when socially responsible firms have leaders with strong stakeholder values, they practice excessive CSR that hurts performance.

Analyzing an international sample of 132 companies from nine countries from the period of 2011–2016, Perez-Cornejo et al. (2020) found that CSR dimensions (social, environmental, and economic) positively affect corporate reputation, while good CSR reporting quality increases the intensity of the environmental and social performance effects on corporate reputation. This research investigated not only CSR as an index, but also different dimensions of CSR. The study of Lee (2020) investigated how organizations' CSR practices influence the communal relationship between organizations and employees as well as their perceived external prestige of an organization on a sample of 507 full-time employees in large-sized companies

in the USA. Results showed that four dimensions of CSR activities—discretionary, ethical, legal, and economic CSR—are significantly related to employees' perceived external prestige.

Based on the aforementioned theoretical review of previous studies, it is seen that socially responsible activities has positive impact on corporate reputation. IN the most of the studies presented in this paper the relation is investigated on a sample of external stakeholders. Also, many studies used CSR as an overall index of social responsibility of a company. Although these relations have been investigated in several studies, there are less results about the relations between partial CSR dimensions and reputation (Perez-Cornejo *et al.*, 2020). Therefore, this research will try to decrease the gap related to these relations, too. The research hypothesis is proposed as:

H1: *CSR of a company has a positive relation to company's corporate reputation.*

Methodology

The methodology of the paper consists of a description of the questionnaire, sample and data collection, and statistical tests used for data analysis. The research was performed in the Republic of Serbia, from October 2019 until the end of June 2020, with a focus on the processing industry. The authors decided to include the processing industry since it is shown that organizations from that sector can have significant positive and even negative influence on many stakeholders of CSR, not only employees and community but also the environment, too (Li & Zeng, 2020).

Questionnaire

A questionnaire used in the research was developed in accordance with previous research of Weiss et al. (1999), Rettab et al. (2009), Turker (2009), Saeidi et al. (2015), and Grubor et al. (2020). The authors used a stakeholder approach to investigate CSR and its relationship to the reputation of organizations. The first part of the questionnaire contained questions related to size, sector, industry, market, and ownership of the companies, while the second part contained questions related to CSR and corporate reputation. A total of 38 questions were created in an online questionnaire on Google forms and sent to managers in organizations from the processing industry in Serbia. The first seven questions were related to control variables of size, sector, industry, etc. The next 26 questions related to CSR were derived in 6 dimensions of CSR, according to stakeholder approach, i.e., responsibility for employees, local community, investors, suppliers, customers, and environment. The last five questions are related to corporate reputation were taken and adjusted from Weiss et al. (1999). According to Saiedi et al. (2015), these 5 questions for measuring corporate reputation are adequate for this kind of research because components of this questionnaire are based on the general perception of a corporate reputation, not on any specific part of reputation, which often shows a high level of cross-loading with CSR questions. Both, questions on CSR and reputation were formed on a Likert scale (1 (not at all) to 5 (to a great extent)).

The questionnaire was created to examine the opinion of managers at senior positions in organizations, to get information

on CSR and corporate reputation. Most of the previous studies in Serbia were based on questioning employees, customers, or community (Vukovic *et al.*, 2020a, 2020b, Dragicevic-Radicevic *et al.*, 2020). The methodological approach in this research is based on a single-respondent methodology, where only one questionnaire was filled out for one organization. Therefore, the authors asked managers at senior positions in organizations to give their responses to proposed questions. It is expected that they can give the most reliable answers related to study variables since they are responsible for business management.

Sample

The sample used for analysis in the paper consists of the data from 73 large private companies from the processing industry in Serbia. Regarding the total population, there are 235 active large processing companies in the Republic of Serbia (Statistical Office of the Republic of Serbia 2020, p. 197). The sample used in this study represents 31.06 % of the total population (basic set). The authors sent out 200 questionnaires and received 78. After the overview, 5 responses were found with many missing data, and they were excluded from the following analysis.

The sample of this research obtains companies that work mostly on national and international markets (about 65 %). Most of them have their headquarters in Serbia, almost 73 % of them are national companies, while 23.3 % are companies from the EU, and only 4.1 % are companies from non-EU European countries. The average number of employees in the sample organizations is 596 (Berber *et al.*, 2021).

Data Processing

The authors used PLS-SEM analysis to investigate the relationship between two constructs, CSR, as a second-

order construct, and corporate reputation. The analysis was performed in two steps. The first step was to investigate the validity of the sample and questionnaire, while the second one is dedicated to the examination of the proposed relation between CSR and corporate reputation. The authors used SmartPLS 3.3 software.

The first part of the analysis referred to the measurement of the reflective constructs in the model. Hair *et al.* (2019) suggested measures for analyzing reflective constructs: individual indicator reliability, internal consistency reliability, convergent validity, and discriminant validity. CSR is a formative indicator, a second-order construct. The second part was related to the bootstrap method to estimate the statistical significance of total effects, direct and indirect effects of the proposed model.

Results

Test of the Questionnaire

The first part of the results presents the measurement of the individual indicator reliability, internal consistency reliability, convergent validity, and discriminant validity. According to the data in table 1, the CSR index is composed of six factors, i.e., Local community, Environment, HRM, Investors, Customers, and Suppliers. Corporate reputation is a first-order construct, created from five variables. All variables that surpassed loadings of 0.708, were included in the analysis for each of six factors. In the case of the HRM factor, HR1 variable did not reach 0.708 or higher value, and it has been excluded from the further analysis. In the case of corporate reputation, all variables reached values higher than 0.708. This value is the limit for a decision whether to include or not a specific variable into the analysis (Hair *et al.*, 2019).

Table 1

Individual Indicator Reliability, Internal Consistency Reliability, Convergent Validity, and Common Method Bias Test

	CSR index						Corporate reputation	Cronbach's Alpha	Composite Reliability	AVE
	Local com.	Environment	HRM	Investors	Customers	Suppliers				
Soc1	0.879						0.883	0.919	0.741	
Soc2	0.811									
Soc3	0.876									
Soc4	0.875									
Envi1		0.732					0.855	0.903	0.700	
Envi2		0.854								
Envi3		0.870								
Envi4		0.882								
HR2			0.740				0.900	0.931	0.773	
HR3			0.895							
HR4			0.936							
HR5			0.933							
Invest1				0.880			0.906	0.934	0.780	
Invest2				0.858						
Invest3				0.905						
Invest4				0.890						
Consumer1					0.808		0.910	0.937	0.789	
Consumer2					0.902					
Consumer3					0.918					
Consumer4					0.919					
Supp1						0.744	0.869	0.905	0.658	
Supp2						0.777				
Supp3						0.888				

	CSR index						Corporate reputation	Cronbach's Alpha	Composite Reliability	AVE
	Local com.	Environment	HRM	Investors	Customers	Suppliers				
Supp4						0.753				
Supp5						0.883				
Rep1							0.828	0.857	0.892	0.624
Rep2							0.813			
Rep3							0.718			
Rep4							0.829			
Rep5							0.756			
VIF	1.905	2.115	1.975	1.444	1.481	1.695	1.000			

Besides individual indicator reliability, the authors investigated internal consistency reliability and convergent validity which are measured by composite reliability, Cronbach's Alpha, and average variance extracted (AVE). According to the data in table 1, internal consistency and convergent validity are satisfied for both reflective constructs, CSR (all factors) and corporate reputation. Limits for Cronbach's Alpha and Composite reliability are values above 0.700, while for AVE is ≥ 0.50 .

In the case of the Local community, Cronbach's Alpha was 0.883, composite reliability value was 0.919, while AVE was 0.740. For the Environment factor, Cronbach's Alpha was 0.855, composite reliability value was 0.903, while AVE was 0.700. For the HRM factor, Cronbach's Alpha was 0.900, composite reliability value was 0.931, while AVE was 0.773. According to the last three columns

in table 1 all three indicators surpassed the limits proposed by Hair et al. (2019) for each of the constructs.

The multicollinearity analysis and common method bias test showed that all variance inflator factors (VIF) were below the value of 3, which indicated that there were no collinearity issues (Hair *et al.*, 2019).

The following part of the analysis was the investigation of discriminant validity. The heterotrait-monotrait ratio of correlations (HTMT) was performed to investigate this. If HTMT values are below 0.90, discriminant validity has been established between two reflective constructs (Henseler *et al.*, 2015). Also, in comparison with the Fornell-Larcker criterion and cross-loadings, HTMT is more a stricter indicator. According to the data in table 2, discriminant validity was confirmed for these data.

Table 2

Discriminant Validity Assessment: The Heterotrait-Monotrait ratio of Correlations (HTMT)

	Customers	HRM	Environment	Investors	Local Com.	Reputation	Suppliers
Customers							
HRM	0.418						
Environment	0.484	0.741					
Investors	0.437	0.234	0.345				
Local com.	0.487	0.611	0.671	0.410			
Reputation	0.306	0.429	0.390	0.203	0.420		
Suppliers	0.513	0.434	0.416	0.557	0.552	0.474	

All previous tests were related to reflective constructs. But, to investigate a formative one, like CSR in this case, it is necessary to investigate convergent validity (redundancy analysis), collinearity diagnosis (VIF), the statistical significance of weights, and relevance of indicators with a significant weight. Regarding the CSR formative construct, VIFs presented in Table 1 showed that there was no multicollinearity in the model, since all of them were less than the value of 3. All indicators had statistical significance (p -value < 0.05), and showed loading higher than 0.50 (Maric *et al.*, 2021).

Test of the Model

The second part of the testing was to investigate the relations in the proposed model, i.e., between CSR and corporate reputation. The data in Table 3 and Figure 1 present PLS-SEM coefficients and significance level, and the coefficient of determination of the model. The R2

value was 0.241, which means that the independent variable explains 24,1 % of the variance in the dependent variable, i.e., corporate reputation. According to data presented in Table 3, there are statistically significant direct positive relationships between CSR and corporate reputation ($B=0.491$, $t=5.517$, $p<0.01$). Based on the results, H1 is confirmed, and based on the sample of Serbian companies, CSR is positively related to the corporate reputation of firms in the processing industry. Effect size (f-square) revealed the remaining variance of R2 in the dependent variable. The recommended values for F2 are “ $f^2 < 0.020$: no substantial effect; $0.020 \leq f^2 < 0.150$: weak effect size; $0.150 \leq f^2 < 0.350$: medium effect size; and $f^2 \geq 0.350$: large effect size” (Benitez *et al.*, 2020). In the case of the model, the f-square for the CSR-reputation link was 0.318, which means that model has a medium effect size.

Table 3

Means, Standard Deviation, T-Statistics, P-Values – Direct Effects

	Beta	Sample Mean	Standard Deviation	T Statistics	P Values
CSR ->Reputation	0.491	0.520	0.089	5.517	0.000
HRM-> CSR	0.243	0.244	0.034	7.177	0.000

	Beta	Sample Mean	Standard Deviation	T Statistics	P Values
Environment-> CSR	0.215	0.217	0.041	5.278	0.000
Investors-> CSR	0.178	0.173	0.044	4.061	0.000
Local com. -> CSR	0.245	0.243	0.023	10.565	0.000
Customers-> CSR	0.220	0.209	0.037	5.884	0.000
Suppliers-> CSR	0.260	0.259	0.044	5.949	0.000

According to the data in table 3, the bootstrapping analysis revealed that all six factors that create CSR construct have statistically significant relations, ranging Beta from 0,178 to 0.260, and T from 4.061 up to 10.565, $p < 0.01$.

In the case of indirect effects (table 4), the bootstrapping analysis revealed that all six factors that create CSR construct have statistically significant relations to corporate reputation, too, ranging Beta from 0.106 to 0.128, and T from 3.486 up to 4.780, $p < 0.01$.

Table 4

Means, Standard Deviation, T-Statistics, P-Values – Indirect Effects

	Beta	Sample Mean	Standard Deviation	T Statistics	P Values
HRM-> Reputation	0.119	0.127	0.028	4.253	0.000
Environment-> Reputation	0.106	0.112	0.026	4.069	0.000
Investors-> Reputation	0.088	0.089	0.025	3.486	0.000
Local com. -> Reputation	0.121	0.127	0.025	4.780	0.000
Customers-> Reputation	0.108	0.109	0.027	3.936	0.000
Suppliers-> Reputation	0.128	0.135	0.034	3.772	0.000

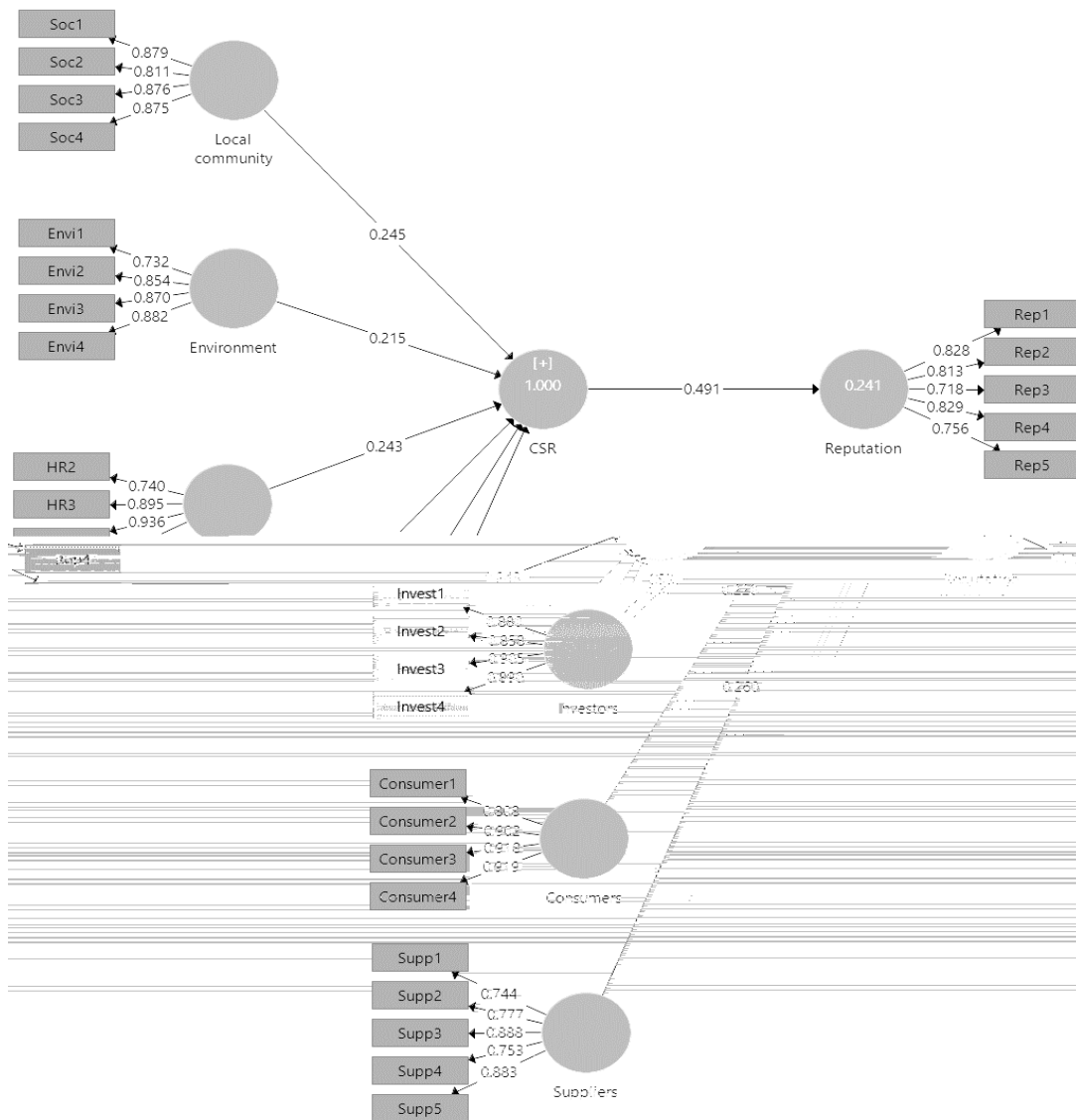


Figure 1. Path Analysis Diagram for the Proposed Model

Discussion

The present research provided new insight into the relationship between corporate social responsibility and corporate reputation, as two interconnected constructs. Based on the results of the analysis, it is proved that CSR has a positive relation to reputation, which means that companies that are doing their business in accordance with environment protection, responsibility to their employees and investors (and shareholders), that offer fair and honest business arrangements to their suppliers, and that produce and sell goods and services that are in the line with consumer desires and needs, and respect and help the local community can enhance their reputation, which is seen as an important factor in contemporary business. This led to the conclusion that the research hypothesis is confirmed. The results are in line with previous results that proved direct positive relation between CSR and corporate reputation (Gatti *et al.*, 2012; Rothenhoefer, 2019; Jeffrey *et al.*, 2019; Perez-Cornejo *et al.*, 2020; Javed *et al.*, 2020; Wang *et al.*, 2021). Reputation needs to be built in the long term, and CSR is one possible strategy for doing that. Corporate reputation is the result of reliable behavior and has a positive effect on human resources and consumer interests, which creates and encourages the status of other companies to improve how they gain a corporate reputation. Also, results pointed that all dimensions of CSR construct have positive relations to corporate reputation, which is also proved in the research of Rettab *et al.* (2009), who used the same six-dimensional concept of CSR, and Melo and Garrido-Morgado (2012), who also used a five-dimensional construct of CSR (employee relations, diversity issues, product issues, community relations, and environmental issues). Partially, the results in this paper are in the line with Gonzalez-Rodriguez *et al.* (2019) who found that using CSR practices related to employees and customers strengthen firms' reputation (in their case hotels), but that CSR activities in the local community and related to the environment do not significantly affect a hotel's reputation.

Besides the mentioned, this research also confirmed that the measures of CSR and corporate reputation are well-established, through the first part of the analysis on which the authors tested the questionnaire. This research adds to the validity of the proposed questionnaire and proved that it can be used in emerging economies, similar like the research conducted by Fatma *et al.*, (2014) Rettab *et al.* (2009), and Turker (2008).

Conclusions

The authors of this research set out to show how corporate social responsibility is related to corporate reputation. This relationship was investigated in previous research in the world, and in most of them, the relation is found to be positive, direct (Jeffrey *et al.*, 2019; Perez-Cornejo *et al.*, 2020; Javed *et al.*, 2020) or indirect (Saiedi *et al.*, 2015; Yadav *et al.*, 2018; Bianchi *et al.*, 2019). Based on the literature review, the authors of this research proposed their research hypothesis that CSR is positively related to corporate reputation.

The main finding of this research is that there is a direct positive statistically significant relationship between CSR and corporate reputation. Also, we found that all dimensions of CSR are positively related to corporate reputation. This means that companies that are socially responsible to their stakeholders can use these practices and enhance their corporate reputation, which is seen as an overall image of the companies, seen from a wide range of stakeholders. The authors confirmed the research hypothesis.

The results of this research direct attention to both, theoretical and practical implications. One of the most important theoretical implications is in the increased understanding of the effects of organizations' socially responsible initiatives on corporate reputation. The authors found a direct positive relation between CSR and reputation and enlarged the base of knowledge in this area. Although this relation has been investigated previously, it is important to emphasize that we found positive relations between the CSR, as the second-order construct, and reputation, but also between the each of the dimension of CSR (Responsibility toward Local community, Environment, HRM, Investors, Customers, and Suppliers) and reputation. This level of analysis provided deeper insight into the investigation of the CSR-reputation relation. The authors found that the responsibility towards local community showed the highest T coefficient, accompanied with responsibility towards employees and environment. This can be said to be expected result, since the main idea of the CSR is to provide balance between economic, social, and environmental goals in a company. More attention dedicated to employees and responsible human resource practices, as well as to local community, in which a company is doing business, and natural environment has a positive effect on the company's reputation, which is a basis for different other benefits explained in the literature. Besides, responsibilities towards shareholders and investors, suppliers, and consumers also founded to be positively related to reputation. This means that the research showed which dimension of the CSR construct influence reputation and the strength and the reliability of each. Also, the research proved the usage of the questionnaire based on stakeholder theory, in contrast to Carroll's pyramid (Carroll, 2016), that has been used mostly in similar previous studies. An additional theoretical implication is related to the validation of the questionnaire that is developed from earlier versions that were implemented in Western developed and South-East developing countries (Weiss *et al.*, 1999; Rettab *et al.*, 2009; Saiedi *et al.*, 2015). All used tests showed high validity and reliability of the data. This is related to the possible comparison of the results from different countries or regions, with the usage of the same or similar questionnaire, and to make even cross-cultural research to investigate the similarities and differences in the CSR and its effects on reputation of a company. This is important both, for the theory, in order to test the established hypotheses and theories in different contexts, but also for the practitioners, in terms of understanding the value of CSR practices for the company, and to investigate

which are the most important CSR practices that have the strongest effects on reputation.

The practical implication of the research lies in the empirical evidence of the positive influence of CSR initiatives on corporate reputation. Companies should practice CSR activities because it has been proven that responsible and ethical business practices which take into account a large group of stakeholders, and a wider business, social and natural environment, will bring greater benefits for the companies that would be perceived as more valuable for the society, and therefore, it could use this for enhancing corporate reputation. CSR can become an important driver of public opinion and the corporate reputation of modern companies (Esen, 2013). The authors of this research suggest that companies should develop CSR practices and communicate to wider groups of stakeholders to create a positive image, and on that basis, enhance corporate reputation. CSR needs to be understood as a business strategy and properly managed to bring benefits in terms of enhanced corporate reputation.

This research has some limitations, too. The first and most important research limitation is the sample of only large companies (250+ employees). The authors followed

the idea that large processing companies are those in which CSR can be the most prevalent. Also, public sector companies were not taken into account. The second limitation is related to research methodology that involves only managers as respondents. Most of the research in the world used customers or employees as respondents. The authors of this paper decided to investigate the perception of managers, who are responsible for CSR activities in companies and to try to get more reliable data, since it is expected that managers will provide more valid data, in accordance with business ethics and their positions in the company.

At the end, the recommendations for the future research could be found in the implementation of the cross-cultural research by using created questionnaire, in different countries, in order to test the differences or similarities in the CSR practices and its effects on the reputation of an organization. This would be very helpful for the companies that work in such business environments, and for their plans on CSR policies and activities. Also, future research could include some other variables like financial performances, in order to test the direct and indirect relations between CSR, reputation, and financial performances.

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