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# The Influence of Organizational Innovation on Social Responsibility and Financial Performance

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***Abstract:*** *This study seeks to investigate the effect of organizational innovation on social responsibility and financial performance, considering the moderating role of organizational innovation. The findings indicate that social responsibility likely improves financial performance; both of which are determined by organizational innovation. Furthermore, organizational innovation is evidenced as a moderator in the causal link from social responsibility to financial performance. The relationship between social responsibility and financial performance in firms that invest more in organizational innovation become stronger.*

***Keywords:*** *Organizational innovation; Social responsibility; Financial performance*

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## I. Introduction

Corporate social responsibility has attracted attention of researchers and stakeholders, because it is one of important drivers of organizational image and reputation, but is closely related to customers and other concerned stakeholders ([1]). The social effect of firms has been an imperative issue in business operation. A poor social influence may lead to a big raise in organizational risk, which likely establish bad relations to various stakeholders and so mitigate organizational reputation ([2]). Customers have been becoming progressively more aware of the bigger social importance of business operations to the the public ([3]); therefore companies likely have more incentives to carry out socially responsible activities to evade negative attention from the public ([4]). Furthermore, firms have been beginning to pay attention on more socially responsible activities to establish confidence among their customers and other key stakeholders ([5]). Although socially responsible activities are connected to additional expenses, not all socially responsible activities bring about good performance for the firms ([6]). Consequently, many scholars have been interested in finding out which advantages or drawbacks due to organizational participation in socially responsible activities ([7]). There have been researchers trying to investigate the link from social responsibility to financial performance ([8]). According to Orlitzky et al. [9], there is a positive causal link existing between socially responsible activities and financial performance, when they performed a meta-analysis of empirical studies on the social-financial performance connection. Companies, which take part in such responsible activities, especially if they cost too high, are likely subject to a variety of market restraints, such as restricted access to cheap capital or the recruitment of top-level executives ([10]).

Several society academics have discussed that companies should take obligations to society, which goes beyond a simple role of maximizing the affluence of shareholders ([11]). Those researchers suggested that such a limited objective could enable directors to pay modest attention to other key stakeholders, for example suppliers, customers, employees or related communities, the benefits of whom are supposed to replace those of shareholders in making business decisions; though likely lessen the current value of cash flows ([12]). To balance this conflict of interests, various socially responsible activities could in fact enhance the current value of upcoming cash flows. Consequently, it can improve the growth of stocks, socially responsible activities likely lead a company to distinguish its products from those of the rivals in the business environment ([13]) and avoid punishments by the governments ([14]). In addition, Lee and Kim [15] emphasized that the causal link from social responsibility to financial performance is statistically limited, although it is a positive relation. Margolis and Walsh [16] underlined it was necessary to establish research models that include missing variables, investigate mediations or moderations and develop causal connections from social responsibility to financial performance. Furthermore, Klassen and Whybark [17] analyzed organizational innovation and connected it to social responsibility of firms; while Wang and Huynh [18] studied innovation in products and recommended the effect of innovation in products on financial performance. Surroca et al. [8] claimed that socially responsible activities of companies could make up organizational resources including organizational innovation, which allow the companies to develop new resources regarded as sources of competitive advantages for the companies that lead to enhanced financial performance. Those scholars also incorporated organizational innovation as an intangible resource into the link between social responsibility and financial performance and explored the mediation of organizational innovation in this relationship. However, the moderation of organizational innovation in the causal linkage from social responsibility to financial performance has not been investigated in previous research. Therefore, this research attempts to examine the relationships among organizational innovation, social responsibility and financial performance, especially it tries to investigate the moderation role of organizational innovation in the linkage between social responsibility and financial performance.

## II. Literature review

Social responsible activities imply managerial behaviors, which not only serve their own company, but also go beyond the simple recognition of organizational incomes ([19]). Additionally, Rake and Grayson [20] emphasized those social responsible activities both indicate individual plans and signify the behaviors that impact stakeholders of the company such as employees, communities, customers, suppliers, government and the environment. On the one hand social responsible activities have been regarded as a cause of financial performance ([8]); on the other hand it is affected by organizational innovation ([17]), which also influences financial performance Wang and Huynh [18]. The links among organizational innovation, social responsibility and financial performance are discussed in more detail below. The link between social responsibility and financial performance has started to be analyzed since 1972 by Moskowitz [21]. His research has been followed by various studies and numerous reviews ([8]). An important issue in business operation is the effect of social responsibility on financial performance ([22]).

The traditional viewpoints have argued that socially responsible activities are costly because they bear extra expenditures, which could decline profitability, so mitigate organizational competitive advantages ([23]). However, based on stakeholder theory, Clarkson [24] highlighted the dissatisfaction of stakeholders could affect future financial performance; so socially responsible activities are regarded as a prerequisite for maintaining and improving firm performance. The influence of socially responsible activities on financial performance of firms was also emphasized in Fauzi [25] who examined the causal link from social responsibility to financial performance and offered an insight into this link. More many studies have provided evidence on the positive influence of socially responsible activities on financial performance. Bird et al. [26] analyzed dimensions of social responsibility to understand what socially responsible actions were evaluated by the stock exchange and reported a positive and significant link between socially responsible activities and financial performance. Likewise, Margolis and Walsh [16] conducted a meta-analysis of 167 empirical research projects and asserted a positive but modest causal link from social responsibility to financial performance. Socially responsible activities were investigated in Wu and Shen [27] as a positive determinant of financial performance that were calculated by return on equity, net interest income and return on assets with the data of 162 banks in 22 nations during the period from 2003 to2009. Furthermore, drawing on risk management, overinvestment and competitive advantage theories, Yan et al. [28] recommend a negative effect of social responsibility on firm risk and a significant and positive influence of social responsibility on organizational performance through a different channel linked to stakeholders within the context of emerging economies.

As above mentioned, it could suggest that socially responsible activities are one of the important determinants of financial performance; yet, both socially responsible activities and financial performance are confirmed as being connected to organizational innovation. Grounded on the knowledge-based view, Grant [29] underlined the differences in innovative capabilities of firms will lead to differences in managerial behaviors that determine socially responsible activities of managers. Organizational innovation has been regarded as an important element in driving the abilities to maintain a company's competitive advantages. This helps the company to well respond to the rapid changes in the business environment ([30]). In addition, the ability for creating new technology, productions, and enhanced processes is costly for rivals to imitate; therefore, innovation could become a source of competitive advantage ([31]). In a study by Wang and Huynh [18], an attribute of nonfinancial performance that is organizational innovation was reported as a significant determinant of financial performance. Furthermore, Surroca et al. [8] argued that, innovation that is a measurement of the intangible resource was a cause of financial performance and simultaneously a driver of socially responsible activities. Overall, it could suggest the following hypotheses:

H1: Corporate social responsibility determines financial performance
H2: Organizational innovation affects corporate social responsibility
H3: Organizational innovation influences financial performance
H4: Organizational innovation moderates the causal link from corporate social responsibility to financial performance

## III. Methodology

Corporate social responsibility (CSR) is evaluated with four main variables that are (1) responsibility to the employees- REM; (2) responsibility to the customers- RCU; (3) responsibility to the environment- REN; (4)

responsibility to the community- RCO. Responsibility to the employees consists of 5 items. Responsibility to the customers consists of 5 items. Responsibility to the environment consists of 6 items. Responsibility to the community consists of 5 items. They were adapted from Nguyen Phuong Mai [32]. Financial performance (FPE) is calculated using Tobin's q ratio, modified from Surroca et al. [8]. Organizational innovation (ORI) is assessed using the item of innovation in products (adapted from Wang and Huynh [18]). The research sample consisted of 324 firms that were randomly selected from the firms listed on Vietnamese Stock Exchanges. This number meets the sample size suggested by Hair et al. [33]. To investigate the causal hypotheses, this research applied multiple regression analyses. To examine the moderating hypotheses, this research used the procedures stipulated by Baron and Kenny [34].

## IV. Empirical Results

To explore the internal consistence with the constructs that comprise multiple dimensions, the reliability analyses were applied. The findings are shown in Table 1. The Cronbach's αs for the construct of REM, RCU, REN and RCO are 0.833, 0.896, 0.860 and 0.882 respectively, all greater than 0.7. The coefficients of KMO are 0.821, 0,866, 0.819 and 0.875 respectively, all exceeding 0.7. All the item-total correlations are over 0.5 and Cronbach's α s"if Item deleted" are less than its own Cronbach's α. Overall, those findings indicate all the constructs are internally consistent.

**Table 1:** Reliability analyses

| Items | Item-total Correlations | Cronbach's α if Item Deleted | Cronbach's α | KMO | N of Items |
|---|---|---|---|---|---|
| REM1 | 0.686 | 0.784 | | | |
| REM2 | 0.631 | 0.801 | | | |
| REM3 | 0.640 | 0.802 | 0.833 | 0.821 | 5 |
| REM4 | 0.615 | 0.806 | | | |
| REM5 | 0.616 | 0.805 | | | |
| RCU1 | 0.769 | 0.867 | | | |
| RCU2 | 0.764 | 0.869 | | | |
| RCU3 | 0.743 | 0.873 | 0.896 | 0.866 | 5 |
| RCU4 | 0.747 | 0.872 | | | |
| RCU5 | 0.696 | 0.884 | | | |
| REN1 | 0.765 | 0.818 | | | |
| REN2 | 0.677 | 0.833 | | | |
| REN3 | 0.621 | 0.842 | 0.860 | 0.819 | 6 |
| REN4 | 0.650 | 0.837 | | | |
| REN5 | 0.635 | 0.840 | | | |
| REN6 | 0.577 | 0.850 | | | |
| RCO1 | 0.740 | 0.852 | | | |
| RCO2 | 0.769 | 0.846 | | | |
| RCO3 | 0.669 | 0.869 | 0.882 | 0.875 | 5 |
| RCO4 | 0.709 | 0.858 | | | |
| RCO5 | 0.715 | 0.858 | | | |

*Source: Author's analyses*

To investigate the causal hypotheses, five regression models were undertaken and the results are exhibited in Table 2. All the five models fit well to the data with R2 of 0.451; 0.014; 0.050; 0.033; 0.063 and F of 52.190; 4.477; 17.001; 11.012; 21.490 at the 1% and 5% significance levels. Responsibility to the employees affects financial performance with the coefficient of 0.092 at the 1% significance level. Responsibility to the customers affects financial performance with the coefficient of 0.368 at the 1% significance level. Responsibility to the environment affects financial performance with the coefficient of 0.076 at the 10% significance level. Responsibility to the community affects financial performance with the coefficient of 0.086 at the 10% significance level.

Organizational innovation influences financial performance with the coefficient of 0.085 at the 10% significance level. Organizational innovation influences responsibility to the employees with the coefficient of 0.177 at the 5% significance level. Organizational innovation influences responsibility to the customers with the coefficient of 0.223 at the 1% significance level. Organizational innovation influences responsibility to the environment with the coefficient of 0.181 at the 1% significance level. Organizational innovation influences responsibility to the community with the coefficient of 0.249 at the 1% significance level. These findings statistically support hypotheses 1, 2 and 4 (H1, H2 and H3) that: Corporate social responsibility determines financial performance; Organizational innovation affects corporate social responsibility; Organizational innovation influences financial performance.

To examine the moderating hypotheses, this research used Model 1 and then added the interaction elements in addition to the main effects in Model 7. To diminish multicollinearity, before generating all the interaction variables, independent and moderator variables should be centered ([35]). The results are shown in Table 3.

**Table 2:** Multiple regression analyses

| Independent variables | Dependent variables | | | | |
|---|---|---|---|---|---|
| | FPE (1) | REM (2) | RCU (3) | REN (4) | RCO (5) |
| Constant | 3.867*** | -0.445** | -0.852*** | -0.692*** | -0.951*** |
| REM | 0.092*** | | | | |
| RCU | 0.368*** | | | | |
| REN | 0.076* | | | | |
| RCO | 0.086* | | | | |
| ORI | 0.085* | 0.177** | 0.223*** | 0.181*** | 0.249*** |
| $R^2$ | 0.451 | 0.014 | 0.050 | 0.033 | 0.063 |
| F | 52.190 | 4.477 | 17.001 | 11.012 | 21.490 |
| $P_F$ | 0.000 | 0.035 | 0000 | 0.000 | 0.000 |

**** 1%; ** 5%; *10% Significance*
*Source: Author's analyses*

The findings indicate that, the increase in R-square (ΔR2) caused by the interaction influences are statistically significant at the 1% level. The interaction elements significantly affect financial performance with the estimates of 0.124; 0.211; 0.125; 0.089 at the 5% significance levels. These figure provide statistical support for hypothesis 4 (H4) that: Organizational innovation moderates the causal link from corporate social responsibility to financial performance.

**Table 3:** Moderating analyses

| Independent variables | Dependent variable | |
|---|---|---|
| | FPE (1) | FPE (7) |
| Constant | 3.867*** | 3.893** |
| REM | 0.092*** | 0.114** |
| RCU | 0.368*** | 0.374** |
| REN | 0.076* | 0.092* |
| RCO | 0.086* | 0.097* |
| ORI | 0.085* | 0.099* |
| ORI*REM | | 0.124** |
| ORI*RCU | | 0.211** |
| ORI*REN | | 0.125** |
| ORI*RCO | | 0.089** |
| $R^2$ | 0.451 | 0.463 |
| F | 52.190 | 30.120 |
| $P_F$ | 0.000 | 0.000 |
| Test of increases in $R^2$: | $\Delta R^2 = 1.2\%$; $P_c = 0.000$ | |

**** 1%; ** 5%; *10% Significance*
*Source: Author's analyses*

## V. Conclusions

This research contributes to existing research into the linkage among organizational innovation, social responsibility and financial performance, highlighting the role of organizational innovation on social responsibility and financial performance. The first objective was to examine the causal hypotheses. The results indicate that, social responsibility positively affects financial performance; whereas both of them are affected by organizational innovation. The second objective was to investigate the moderating effect in the causal link from social responsibility and financial performance. The findings show that, the four components of social responsibility all moderate the relationship between social responsibility and financial performance. The findings are expected to provide researchers as well as business managers an insight into the complicated links among organizational innovation, social responsibility and financial performance. Therefore, they can adopt a suitable level of socially responsible activities and organizational innovation,, so that they could obtain best possible financial performance.

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