

Corporate Social Responsibility and Firm Financial Performance: The Mediating Role of Competitive Advantage and Corporate Reputation of Telecommunication Firms in Mogadishu, Somalia

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Abstract: *This research is conducted for purpose of investigating the relationship between corporate social responsibility (CSR) and financial performance via mediating role of competitive advantage and reputation. To establish this objective the researcher has used explanatory research design. The study sample of 310 participants extracted from 1500 staff of HORMUUD group companies in four clusters as functional based. This research used structured questionnaire as data collection tool. The major Findings of this study found that corporate social responsibility has positive significant influence on financial performance, corporate social responsibility “CSR” has a significant positive influence on of competitive advantage, corporate social responsibility “CSR” has a significant positive influence on corporate reputation, firm’s competitive advantage “CA” has a significant positive influence on finance financial performance, corporate reputation “CR” has a positive influential impact on financial performance.*

Keywords: Corporate social responsibility, competitive advantage, corporate reputation, financial performance

1. Introduction

Regarding to the field, so many intellectuals put emphasize writing about corporate social responsibility (CSR) and described that it is a broad area that gives required responses from fundamental inquiries in relation between business and society with firms having responsibility beyond a search of their interest and complying with the regulation. Consistent with that definition, given organizational behaviors and policies that giving attention to the stakeholders’ weddings and being the edge line of economic, social and whole performance (Linda J. & Christopher W. , 2012).

Currently, corporate social responsibility (CSR) turned out the cornerstone of the firms over the latest 10 years, the number of corporations declared that part of their yearly reports and firms sites discover CSR activities, bringing images to the essence they attach to these tasks. These actions create value for owners (Henri & Ane , 2013).

For the past decades competition has become massively effecting markets and made them universal issue meanwhile too much challenges raised relevant with fresh products and services at suitable and place with proper cost. Firm comes up with initiatives to improve their efficiency and their concept of competitive advantage emerged. Competitive advantage is defined as a point that firms have an ability to create a strong position over its rivals (Suhong, Bhanu , T.S., & S. Subba, 2006).

Corporate reputation is features as being the most effective tool in line with firms’ performance financially. Some studies in the field point out that there is relationship between organization’s reputation and its performance in line

with complexity of understanding it (Annis & W. Slocum, 1996).

Previous researches conducted by some scholars concentrating performance of the firms employing financial and market indicators such as; return on capital (ROC), market share, profit margin (PM) on sales, ROC growth, sales growth, market share growth and the whole competitive point of the firms described Organizational performance as the ways that firms achieve its main goals.

In the context of business ethics, there are four main theories or concepts in which corporate social responsibility (CSR) is built on those are; instrumental theory that suggests that the core responsibility on the business managers is to generate wealth for the owners not to the think about the social interest, political theory that holds it incumbent on the corporate to give contribution social interest and to emphasize consideration towards the social power, integrative theory which believes that business and community are interdependent to each other and firms cannot do without society for their growth and profitability, ethical theory holds that relation between business managers and surrounded society is fixed or rooted by the ethical value of the people and it paves the way firms asserting social responsibility (SR) as being an ethically obligatory on the corporation (Elisabet & Domenec , 2004).

Referring to the four theories, Carroll advocates that organizations mostly meet failure from the ethical responsibility, it is apparent that firms meet greater obstacles in gaining a profit regardless of the putting emphasize ethical and discretionary responsibility (Thomas L. & J. David , 2012).

Somali business owners always have a vision to be globally oriented, they do attempt and have a strong straggle so that

their products and services to sold in the global markets but due to their business scale combined with powerful world competition and being dependent on Somali niche market caused them not to succeed their own ambitions. So that to achieve their vision of growth and global expansion Somali firms should suddenly come up with view of implementing CSR. Once CSR seemed new phenomena in the cosmos but in Islamic prospective it was already required duty from all organizations and individuals as well (obsiye, 2011).

Considering CSR in Somalia, year 2017 HORMUUD foundation donated number of basic food, fuel and materials as well to public hospitals. It has also distributed money for number patients in those hospitals (webpage, 2017).

2. Statement of the Problem

Corporate social responsibility is titled to aid an organization's mission as well as a guide to what the company stands for its consumers. The aim is to increase long-term profits through positive public relations, high ethical standards to reduce business and legal risk, and shareholder trust by taking responsibility for corporate actions (Ibrahim, Abdi-Egale, Abtidon, & Abdi-Egale, 2016).

Number of researches in the field revealed that there is correlation between corporate social responsibility and firm performance denoting that socially responsible organizations generate valuable economic results (Sayedeh, Saudah, Parvaneh, Sayyede, & Seyyed, 2015).

Alison et al (2007) supposed that the market value of firms give intensification that makes demonstrations the liable actions and Performance in the direction of humanity or society which eventually raises the financial performance of business.

However, all these researches shed lighted the existence of some kinds of relationship between corporate social responsibility (CSR) and firm financial performance.

The appearing vacancy or gap is that there are no more researches investigation their relationship through mediation or indirect influence.

Therefore, this study proposes to investigate the relationship between corporate social responsibility (CSR) and financial performance (FP) by giving excessive consideration how competitive advantage (CA) and corporate reputation (CR) the relationship between CSR and Financial performance.

3. Literature Review

In the literature a research conducted in Jorden 2012 titled Corporate Social Responsibility Associated with Customer Satisfaction and Financial Performance a Case Study with Housing Banks in Jordan in which its data was collected using questionnaire instrument those quantitative research design concluded that corporate social responsibility (CSR) has a significant positive relationship with financial

performance mediated by customer satisfaction (Alafi & Al sufy, 2012).

A study conducted Pakistan 2014 which was heading corporate social responsibility and its possible impact on firm's financial performance in banking sector of Pakistan with these objectives; to identify the impact of disclosure of CSR on firm's Profit Margin, to identify the impact of disclosure of CSR on firm's EPS indicated that firms corporate social responsibility has a significant relationship with the firm's financial performance by measuring from the points of net profit margin(NPM) and earnings per share(EPS) of the firm (Ahmad, Iqbal, Hamad, Bashir, & Sattar, 2014).

Corporate social responsibility (CSR) makes much more value through assured settings. Merely when stakeholder's relevant social reflections whose benefits parallel with the organizations value chain would have CSR arrangement generating tangible value outside its cost. Therefore, embracing incident perception companies could have an engagement of activities built in CSR in order to amend its socially required actions to focus on the making solutions worries of the external stakeholders (Iftekhhar, Nada, Liuling, & Haizhi, 2005).

In terms of corporate social responsibility (CSR) companies should initially be involved in instrumental requirement like, projected financial results, firms also need to be engaged in CSR because of normative reasoning of doing the right things as required by society, there is positive relationship between corporate social responsibility and corporate policies, furthermore, despite of the real size of the financial outcomes raised through CSR there are nonfinancial factors need to be considered such as quality and efficiency (Herman & Ante, 2012).

In terms of basic understanding of competitive advantage, a study conducted in the field of business strategy in which was titled a basis for competitive advantage in firms, it is aim was to identify what firms know as elaboration its performance shown that organization need to make retention and transfer of knowledge in the society to develop basis of competitive advantage (Linda & Ingram, 2000).

Research conducted in the field which was about corporate social responsibility on Companies' reputation pointed out that a significant positive relationship between corporate social responsibility and company's reputation in the society it operates, the study also suggested that company should come up with CSR in a fair way so that they can build reputational competency (Ibrahim, Abdi-Egale, Abtidon, & Abdi-Egale, 2016).

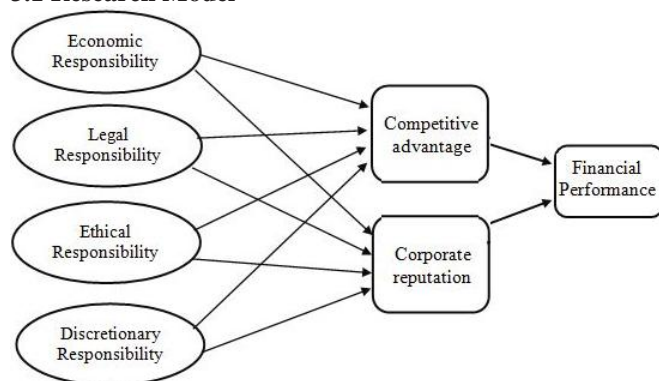
A study the was titled Corporate Social Responsibility and Corporate Reputation in which it is main purpose was is to explore the relationship between corporate social responsibility and corporate reputation in the context of Pakistan by employing survey design and collecting through questionnaire indicated that there is a strong significant relationship between corporate social responsibility (CSR)

and corporate reputation (CR) in Pakistan context (Khan, Majid, Yasir, & Arshad, 2013).

The view that corporate reputation (CR) is essential to the whole firm and this paves the way the investors perceive this reputation brings profits and long term potential performance in which increases organizational attractiveness towards investment (Maden & Telci, E. E.c., 2012).

Competitive advantage has direct and significant positive relationship with firms' financial performance (Suhong, Bhanu, T.S., & S. Subba, 2006).

3.1 Research Model



4. Research Methodology

This study investigates the relationship relationships between corporate social responsibility (CSR) and financial performance via competitive advantage and corporate reputation by employing explanatory research design.

According a study conducted in 2016 in which was about defining role of corporate social responsibility in the financial performance of HORMUUD Telecom and adopted through descriptive study design highlighted in researcher interview that HORMUUD staff roughly consist of 1500 employees (Adam & Theuri, 2016).

The sample of 310 respondents extracted from 1500 HORMUUD staff in cluster sampling procedure.

5. Findings

5.1 Reliability Analysis

A reliability test was analyzed to evaluate the internal consistence of the overall objects by the use of Cronbach's alpha. A variable is internally consistent and reliable when the alpha is .70 and above (Hair, Black, Babin, & Anderson, 2010). However, bowling (2009) argues that alpha of .50 and above is a signal of internal consistency.

No.	Variables	N	Items	Items Deleted	Cronbach's Alpha
1.	Economic Responsibility	310	5	1	.531
2.	Ethical Responsibility	310	5	2	.524
3.	Legal Responsibility	310	5	2	.548
4.	Discretionary Responsibility	310	5	1	.581
5.	Competitive Advantage	310	5	-----	.691
6.	Corporate Reputation	310	5	-----	.713
7.	Financial Performance	310	10	1	.537

Source (primary Data, 2019)

5.2 Correlation Analysis

Table 4.9.1: Correlation table of Variables

	CSRER	CSRLR	CSRETR	CSRDR	CA	CR	FPDV
1 CSR economic responsibility	1						
2 CSR legal responsibility	.504**	1					
3 CSR ethical responsibility	.546**	.551**	1				
4 CSR discretionary responsibility	.551**	.620**	.616**	1			
5 Competitive advantage	.503**	.556**	.586**	.602**	1		
6 Corporate reputation	.304**	.401**	.356**	.505**	.505**	1	
7 Financial performance	.454**	.520**	.546**	.674**	.580**	.529**	1

**Correlation is significant at the 0. level. source (primary data, 2019)

The primary purpose of this study is to shed light the relationship between corporate social responsibility (CSR) and financial performance (FP) with consideration of the mediation rule of competitive advantage (CA) and corporate reputation (CR), in telecommunication companies in Mogadishu Somalia especially focusing on Hormuud company and its cooperative telecom providing companies. The table below shows the results of a correlation analysis of the associations among corporate social responsibility (CSR) dimensions such as economic responsibility (ER), legal responsibility (LR), ethical responsibility (ETR) and discretionary responsibility (DR). The mediating variable of competitive advantage (CA) and corporate reputation (CR) and the dependent variable of financial performance (FP).

As shown in table 4.9.1 complete advantage "CA" has a strong, significant and positive correlation with CSR economic responsibility "CSRER" ($r = .504^{**}$ $p = .000$), CSR legal responsibility "CSRLR" ($r = .556^{**}$ $p = .000$), CSR ethical responsibility "CSRETR" ($r = .586^{**}$ $p = .000$), and CSR discretionary responsibility "CSRDR" ($r = .602^{**}$ $p = .000$). Corporate reputation has a weak positive correlation with CSR economic responsibility "CSRER" ($r = .304^{**}$ $p = .000$), CSR legal responsibility "CSRLR" ($r = .401^{**}$ $p = .000$), CSR ethical responsibility "CSRETR" ($r = .356^{**}$ $p = .000$), while it has a strong positive correlation with CSR discretionary responsibility "CSRDR" ($r = .505^{**}$ $p = .000$).

Financial performance "FP" has a significant positive strong relationship with two mediating variables of competitive advantage "CA" ($r = .580^{**}$ $p = .000$) and corporate reputation "CR" ($r = .529^{**}$ $p = .000$).

Financial performance "FA" has also a significant positive relationship with all dimensions independent variable of corporate social responsibility "CSR" in which had been measuring from CSR economic responsibility "CSRER" ($r = .454^{**}$ $p = .000$), CSR legal responsibility "CSRLR" ($r = .520^{**}$ $p = .000$), CSR ethical responsibility "CSRETR" ($r = .546^{**}$ $p = .000$) and CSR discretionary responsibility "CSRDR" ($r = .674^{**}$ $p = .000$).

5.3 Regression Analysis

5.3.1: Regression analysis: of CSR on the financial performance

Regression analysis was used to test the association between corporate social responsibility (CSR) measuring dimensions such as economic responsibility, legal responsibility, ethical responsibility, discretionary responsibility and firm financial performance. The regression analysis result in Table (4.10.1) indicates that CSR economic responsibility “CSRER” has positive and significance influence on financial performance ($\beta=.244$, $t=3.832$, $p=.000$). The result has also shown that CSR legal responsibility “CSRLR” has a positive significant impact on financial performance ($\beta=.108$, $t=2.970$, $p=.000$). It has also shown that CSR ethical responsibility “CSRETR” has positive significant influence on financial performance ($\beta=.167$, $t=2.992$, $p=.000$). Finally result shown that CSR discretionary responsibility “CSRDR” has positive significant influence on financial performance ($\beta=.479$, $t=8.116$, $p=.000$). This result demonstrates that corporate social responsibility (CSR) has association with financial performance of HORMUD group companies operating in Mogadishu, Somalia.

Table 4.10.1: Regression analysis: of CSR on the financial performance

	Std. Error	Beta	t	Sig.	Status
Financial Performa	1.264		7.559	0	
CSR economic responsibility	0.087	0.244	3.832	0	Accepted
CSR legal responsibility	0.087	0.108	2.97	0	Accepted
CSR ethical responsibility	0.096	0.167	2.992	0	Accepted
CSR discretionary responsibility	0.098	0.479	8.116	0	Accepted

Source (primary Data, 2019)

5.3.2: Regression analysis of CSR on the competitive advantage

Regression analysis was used to test the association between corporate social responsibility (CSR) measuring dimensions such as economic responsibility, legal responsibility, ethical responsibility, discretionary responsibility and competitive advantage used as a mediating variable. The regression analysis result in Table (4.10.2) indicates that CSR economic responsibility “CSRER” has positive and significance influence on competitive advantage ($\beta=.126$, $t=2.359$, $p=.000$). The result has also shown that CSR legal responsibility “CSRLR” has a positive significant impact on competitive advantage ($\beta=.194$, $t=3.467$, $p=.000$). It has also shown that CSR ethical responsibility “CSRETR” has positive significant influence on competitive advantage ($\beta=.252$, $t=4.436$, $p=.000$). The end result shown that CSR discretionary responsibility “CSRDR” has positive significant influence on competitive advantage ($\beta=.257$, $t=4.280$, $p=.000$). This is an influential indication that corporate social responsibility (CSR) has association with the competitive advantage of HORMUD group companies operating in Mogadishu, Somalia

Table 4.10.2: Regression analysis of CSR on the competitive advantage

	Std. Error	Beta	t	Sig.	Status
Financial performance	1.202		9.992	0	
Competitive advantage	0.088	0.42	8.28	0	Accepted

Competitive advantage	0.737		3.607	0	
CSR economic responsibility	0.051	0.126	2.359	0	Accepted
CSR legal responsibility	0.051	0.194	3.467	0	Accepted
CSR ethical responsibility	0.056	0.252	4.436	0	Accepted
CSR discretionary responsibility	0.057	0.257	4.28	0	Accepted

Source (primary Data, 2019)

5.3.3: Regression analysis of CSR on the corporate reputation

Regression analysis was used to test the association between corporate social responsibility (CSR) measuring dimensions such as economic responsibility, legal responsibility, ethical responsibility, discretionary responsibility and corporate reputation as a mediating variable. The regression analysis result in Table (4.10.3) indicates that CSR economic responsibility “CSRER” has positive and significance influence on corporate reputation ($\beta=.205$, $t=3.073$, $p=.000$). The result has also shown that CSR legal responsibility “CSRLR” has a positive significant impact on corporate reputation ($\beta=.134$, $t=2.027$, $p=.000$). It has also shown that CSR ethical responsibility “CSRETR” has positive significant influence on corporate reputation ($\beta=.337$, $t=4.553$, $p=.000$). Finally result shown that CSR discretionary responsibility “CSRDR” has positive significant influence on corporate reputation ($\beta=.401$, $t=5.672$, $p=.000$). This result demonstrates that corporate social responsibility (CSR) has association with corporate reputation of HORMUD group companies operating in Mogadishu, Somalia

Table 4.10.3: Regression analysis of CSR on the corporate reputation

	Std. Error	Beta	t	Sig.	Status
Corporate reputation	1.105		4.554	0	
CSR economic responsibility	0.076	0.205	3.073	0	Accepted
CSR legal responsibility	0.076	0.134	2.027	0	Accepted
CSR ethical responsibility	0.084	0.337	4.553	0	Accepted
CSR discretionary responsibility	0.085	0.401	5.672	0	Accepted

Source (primary Data, 2019)

5.3.4: Regression analysis competitive advantage, corporate reputation and financial performance

Regression analysis was used to test the association between the mediating variables; competitive advantage (CA), corporate reputation and financial performance. The regression analysis result in Table (4.10.4) indicates competitive advantage (CA) has positive and significance influence on financial performance ($\beta=.420$, $t=8.280$, $p=.000$). The result also had shown that corporate reputation (CR) has positive and significance influence on financial performance ($\beta=.317$, $t=6.258$, $p=.000$). his result demonstrates that corporate social responsibility (CSR) has association with corporate reputation of HORMUD group companies operating in Mogadishu, Somalia

Table 4.10.4: Regression analysis competitive advantage, corporate reputation and financial performance

	Std. Error	Beta	t	Sig.	Status
Financial performance	1.202		9.992	0	
Competitive advantage	0.088	0.42	8.28	0	Accepted

Corporate reputation	0.07	0.317	6.258	0	Accepted
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Source (primary Data, 2019)

6. Conclusion

This empirical study was conducted to investigate the relationship between CSR and financial performance with mediation role of competitive advantage and reputation in telecom service providing firms in Mogadishu, Somalia. Due to that, the study found that there is significant relationship between all the investigating variables of the study.

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