Received 15 July 2017
Revised 19 January 2018
6 April 2018
12 May 2018
13 June 2018
Accepted 15 June 2018

Corporate social responsibility, country reputation and corporate reputation

A perspective on the creation of shared value in emerging markets

Keith James Kelley and Thomas A. Hemphill
School of Management, University of Michigan-Flint, Flint, Michigan, USA, and
Yannick Thams
Department of Strategy and International Business, Suffolk University Sawyer Business School, Boston, Massachusetts, USA

Abstract

Purpose – This paper aims to explore the relationship between corporate social responsibility (CSR) and corporate financial performance (CFP) from a shared value perspective. Adopting reputation as a multilevel form of value that mediates the CSR–CFP relationship, the paper explains how CSR initiatives may enhance both firm and country reputation and how the amount of shared value between the two leads to CFP.

Design/methodology/approach – The paper first establishes the theoretical foundation for the relationship between CSR and CFP. It then draws connections to a more recent stream of literature surrounding the concept of creating shared value to expand upon this relationship, adopting reputation as a multilevel form of shared value that mediates the CSR–CFP relationship. The paper further discusses moderating influences of this relationship that may vary contextually with emerging economies such as those in Latin America.

Findings – The paper argues that as markets become further developed, CSR initiatives will create a higher proportion of shared reputational value between a corporation and country. This is the result of from aligning CSR initiatives that benefit a society, with the strategic goals of the firm – the essence of creating of shared value – but is more difficult in emerging markets, especially volatile ones.

Originality/value – This paper offers insight into a complex relationship between CSR, shared reputational value and CFP by introducing the more recent concept of creating shared value. Several propositions related to this general relationship, and some related to the difference among emerging markets (such as those in Latin America), address the need for more research related to corporate and country reputation, creating shared value and in the emerging market context.

Keywords Shared value, Latin America, Corporate social responsibility, Emerging markets, Corporate reputation, Country reputation

Paper type Conceptual paper

Introduction

During the past few decades, management scholars have extensively surveyed the interplay between corporate social responsibility (CSR) and corporate financial performance (CFP; for reviews of this literature, see Carroll and Shabana, 2010; Margolis *et al.*, 2009; Orlitzky *et al.*, 2003; Wang *et al.*, 2016). While most research holds on the assumption that CSR is likely to improve CFP, some studies suggest that this relationship could be spurious in some cases (Javed *et al.*, 2016; Zhao and Murrell, 2016), prompting many scholars to delve into

Multinational Business Review
Vol. 27 No. 2, 2019
pp. 178-197

1525-383X
DOI 10.1108/MBR-07-2017-0047

contextual factors. For example, it has been theoretically argued, and empirically demonstrated, that institutional factors, such as a country's culture and economic conditions, will impact the relationship between CSR and CFP (Campbell, 2007; Maignan and Ralston, 2002; Margolis and Walsh, 2003; Wang *et al.*, 2016; Young and Makhija, 2014) as these factors often influence the level of conversion of social performance into economic performance through intervening factors. Corporate reputation, for instance, is a mediating strategic resource between CSR and CFP, through which the perceived ability to attend to the institutional demands of stakeholders determines the value of reputation in generating the stakeholder support needed for organizational and institutional performance (Fombrun, 2012). However, reputation is a multidimensional and multilevel construct (Newburry, 2012), and it is important to understand the extent to which its value, alongside how it is created and shared, may be determined by many moderating circumstances, such as market development or volatility.

Corporate reputation is recognized as a valuable intangible asset[1] used to attract other important firm resources such as consumers (Park *et al.*, 2014), employees (Wang, 2013) and investors (Milgrom and Roberts, 1986). Besides examining the strategic implications of firm reputation (Barney, 2000), more recent work has delved into its determinants highlighting firm- and country-level factors (Borda *et al.*, 2016; Deephouse *et al.*, 2016, Soleimani *et al.*, 2014). Increasingly, however, there is an awareness that while stakeholders within countries examine firm behavior to assess which firms are more reputable than others, people are, at the same time, judging a country's reputational value in terms of accessing consumers, high quality employees and investors. Indeed, "places, including cities, regions, and countries, are entities with which people interact and draw value. Therefore, people form images of them and make reputational judgments about them" (Heslop *et al.*, 2013, p. 10). Country reputation is a key area for future research (Newburry, 2012), particularly in emerging markets that are actively seeking to enhance their reputational standing *vis-à-vis* more developed counterparts (Heslop *et al.*, 2013).

If we consider the case of emerging markets, their level of institutional development may offer important implications for the information signals at the disposal of stakeholders to evaluate firms. Emerging markets are composed of countries "whose national economies have grown rapidly, where industries have undergone and are continuing to undergo dramatic structural changes, and whose markets hold promise despite volatile and weak legal systems" (Luo and Tung, 2007, p. 483). As a result, emerging markets often have a great need for companies to attend to societal needs (i.e. engage in CSR), yet without development of institutional standards, firms often find it difficult to enhance their reputation as the standards by which they may be judged are opaque. Besides examining moderating circumstances, extant research has also brought attention to the importance of exploring intervening factors or mediators (Saeidi *et al.*, 2015; Surroca *et al.*, 2010). For instance, it has been argued that CSR creates value in the form of intangible assets, such as firm reputation, that in turn leads to firm performance (Ali *et al.*, 2015; Orlitzky *et al.*, 2003; Saeidi *et al.*, 2015; Wang, 2013)[2]. As a multidimensional construct, corporate reputation is determined by a variety of factors that includes CSR; however, the importance of each factor may vary across markets depending on the relative power of stakeholders (Soleimani *et al.*, 2014). As a multilevel construct, reputation may similarly hold value as an intangible asset for countries (Kang and Yang, 2010; Newburry, 2012; Passow *et al.*, 2005; Yang *et al.*, 2008). Yet, while CSR initiatives may enhance both the reputation of firms and countries and, therefore, produce reputational value at both levels, the overlapping amount of shared reputational value, or proportion, is likely to vary in accordance with market development and volatility. It is the creating shared value (CSV; Porter and Kramer, 2011) that will likely yield the highest levels of economic results for firms by mediating the CSR–CFP relationship. In this paper, we draw on this mediation argument and explore the relationship between CSR and CFP, while subsequently addressing how country and corporate reputational value overlap and why the proportion of shared reputational value may vary based on levels of market development or volatility.

The simple fact that there are formal and informal institutional differences among countries, which, in turn, influence the collective CSR initiatives of firms, will lead to contentious findings across studies that address CSR and value creation. However, there is also debate surrounding the strategic implications of CSR initiatives in relation to their alignment with profit maximization goals of the firm (Porter and Kramer, 2011). While some scholars suggest that managers have long tried to align CSR initiatives, that conceivably create value creation for a society, with profit maximization, or value creation for the firm (Crane *et al.*, 2014), others indicate that these are often orthogonal to one another (Merton, 1976; Porter and Kramer, 2011). In other words, CSR is viewed as "doing good" for the society but largely at the expense of profit maximization for the firm. From this perspective, a firm may create value for the society, or value for the firm, but has a challenging time optimizing both simultaneously and creating shared value between the two. However, Porter and Kramer (2006, 2011) recommend to actively attempting to aligning internal strategic initiatives of the firm with CSR initiatives to maximize the creation of shared value. This would logically create a stronger relationship between CSR and CFP as the proportion of shared reputational value, serving a mediating role in the relationship, would also be increased. We seek to not only elaborate on the process of creating shared reputational value, but also acknowledge the multilevel nature of reputation and show that the amount of reputational value, created and shared between countries and corporations, is affected by levels of institutional and market development.

The remainder of the paper is organized as follows. First, we briefly review existing work between CSR and CFP and then examine the literature surrounding CSR and shared reputational value, emphasizing how CSR initiatives can enhance reputation for both firms and countries. Second, we propose that shared reputational value serves as a moderated mediator of the relationship between CSR and CFP. We further elaborate on the theory and process of creating shared value in the form of reputation, highlighting the dimensions of country and corporate reputation. Third, we further discuss the process of creating and sharing reputational value in the context of emerging markets, drawing on many anecdotes from emerging markets, Latin America in particular. In so doing, we propose additional factors such as the level of market development and emerging market volatility may serve as moderating variables, related to the proportion of shared reputational value that mediates the relationship between CSR and CFP. Fourth, we discuss implications for emerging markets, drawing conclusions for firms and managers that operate within them, acknowledging some limitations and suggesting some avenues for future research.

Theory and general propositions

Before elaborating on our theoretical model linking CSR to CFP and theorizing on the mediating influence of country and firm reputation, we briefly review below the existing literature on the interplay between CSR and CFP, an established stream of literature. While existing research has shown a link between CSR and CFP (Aguinis and Glavas, 2012; Margolis and Walsh, 2003 for additional reviews of literature), such a relationship appears to be contextualized and complicated (Orlitzky *et al.*, 2003; Wang *et al.*, 2016; Young and Makhija, 2014). For example, a recent replication of the most cited study – Waddock and Graves (1997) – linking CSR to CFP, casts doubts on the findings that earlier CSR is positively related to subsequent CFP (Zhao and Murrell, 2016). In addition, from a theoretical standpoint, scholars argue that CSR initiatives may not be in line with CFP; at times, such initiatives are viewed as simply "doing good" in a society (Kramer and Porter, 2011). Some contend that CSR should theoretically have a neutral relationship with performance as it is simply designed to appease stakeholders (McWilliams and Siegel, 2001), which can be seen as "hygiene for stakeholders" rather than motivating them toward supporting behaviors. It is clear, however, that CSR initiatives adhere to local institutional contexts to help attract resources and constitute, from a resource-based perspective, an important strategic asset in certain institutional contexts (Branco and Rodrigues, 2006; Campbell, 2007).

Part of the problem is that there is no universally accepted definition of CSR (Brammer and Millington, 2008; Carroll, 1999). However, Saeidi *et al.* (2015, p. 342) provide a solid definition based upon Carroll's (1979) work defining the concept as "the social responsibility of a business which includes the economic, legal, ethical and discretionary expectations that society has of organizations at a given point in time". The temporal aspect of this definition lends itself well toward understanding that CSR initiatives are at their most basic levels, initiatives that help improve a society, which suggests that society is likely to be changed over time and its expectations along with it. Interestingly, research indicates that the value of CSR initiatives is more relevant in developed economies than in developing ones perhaps because stakeholders are more interested in such CSR signals given a certain level of economic development (Wang *et al.*, 2016). In addition, informational intermediaries may be more apt to report firms' CSR-related activities in developed economies than in emerging ones. Porter and Kramer (2011, 2006) contend that CSR initiatives must be turned into value for both the firm and society. This value is manifest in developed economies where signals of social responsibility are well received by important stakeholder groups such as consumers, investors and employees.

Corporate social responsibility, shared reputational value and creating shared value

Regarding the link between CSR and corporate reputation, existing research has indicated that CSR investment is likely to exert a positive influence on stakeholders and the general public's evaluation of firms (Brammer and Millington, 2005; Fombrun, 2005; Fombrun and Shanley, 1990; Fryxell and Wang, 1994). As highlighted by Fombrun and Shanley (1990) in their seminal work on the antecedents of firm reputation, the public is likely to assess how organizations respond to non-economic agendas and social investments. Social investments may be a testimony of firms' achievements of a mutual relationship with powerful constituents (Fombrun and Shanley, 1990). During the past few years, companies around the globe have been under a great deal of pressure to show the extent to which their behaviors, actions and strategies meet the expectations of various stakeholders as it relates to ethics and moral standards (Fombrun, 2005). Failure to do so may engender important reputational risk (Fombrun, 2005). Indeed, social responsiveness and ethical behaviors play an important role in promoting a positive rapport with stakeholders (Brammer and Millington, 2005). Hillman and Keim (2001, p. 127) claim that stakeholder management can create "intangible, socially complex resources that may enhance firms' ability to outperform competitors in terms of long-term value creation".

As social responsiveness helps firms build positive relationships with stakeholders, one will expect social investments to enhance corporate reputation (Brammer and Pavelin, 2006). Several empirical studies have corroborated these claims and have shown the positive linkage between CSR (broadly defined) and firm reputation. For example, studying a sample of UK firms, Brammer and Millington (2005) find that organizations with higher levels of philanthropic expenditures have more favorable reputations. In a similar vein, using a sample of Fortune 500 US companies, Fombrun and Shanley (1990) demonstrate the positive association between social responsiveness (conceptualized as corporate charitable donations) and firm reputation. In addition, surveying a sample of UK firms, Brammer and Pavelin (2006) also find a positive link between social performance and corporate reputation.

While the potential to create reputational value for the firm through CSR initiatives is well established in the literature, CSR initiatives are also meant to create value for society (i.e. the country). Though the benefits to society can be rather diverse, one important and related aspect gaining more attention is the value of country reputation (Heslop *et al.*, 2013; Newburry, 2012; Passow *et al.*, 2005). Places, such as countries and cities, are now increasingly being judged by people who draw value from them (Heslop *et al.*, 2013). People, in turn, form opinions and make both rational and emotional reputational assessments of those places based on numerous dimensions of those societies. Logically, CSR activities of a firm, which seek to improve the society, also create reputational value for entities such as cities, regions and, as we discuss in broader terms, countries. However, we should acknowledge that the social performance of an individual firm is not likely to have as large an impact on the country, unless the firm is large and the country small and should, therefore, be considered in aggregate with other firms in most cases. Furthermore, while Porter and Kramer (2011) contend that CSR often just creates value for the society, they also acknowledge that if CSR is properly aligned with the firm's strategy, it can create more value for the firm as well. Consequently, they refer to it as creating shared value (CSV), and we contend that CSR will lead reputational value for both corporations and countries and that a proportion of this value for each will overlap and be shared. In other words, higher amounts of CSR should create higher amounts of reputational value for both firms and countries and greater amounts of shared reputational value in *absolute* (i.e. the proportion of shared reputational created will not necessarily change although the amount may increase) terms as well. (See Figure 1 below for a conceptual model of relationships). Thus, we propose the following:

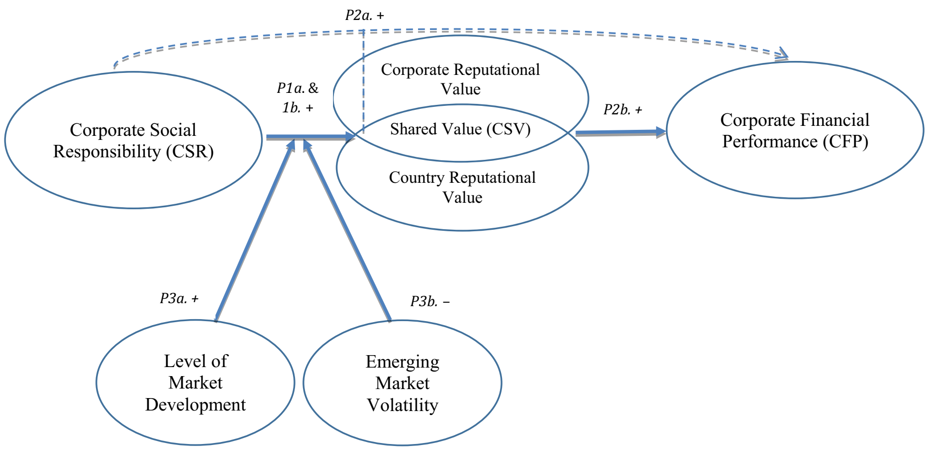

Figure 1.
The general model explaining the moderated–mediated relationship between CSR and CFP with respect to shared reputational value and level of market development and volatility

P1a. CSR creates reputational value for corporations and for countries.

P1b. CSR creates shared reputational value (CSV) between corporations and countries.

Country and firm reputation as shared value

While corporate reputation is variously defined (Lange *et al.*, 2011), it may be best understood as the overall knowledge and esteem held by the public regarding a corporation (Fombrun, 1996). Firm reputation is, in part, determined by evaluators that "rate a company against a peer group of others" (Fombrun, 1996, p. 37). In which case, while it is somewhat emotional, it is also driven by several rational criteria. Indeed, the Reputation Institute captures the emotional or "feeling" aspect of corporate reputation in its RepTrack© measure, but this is in part determined by rational comparative criterion in the dimensions of: *leadership, performance, products, innovation, workplace, governance* and *citizenship*, with the last three dimensions pertaining to CSR (Reputation Institute, 2016a). Similarly, their country reputation RepTrack© has both an emotional aspect that includes *esteem, feeling, trust* and *admiration*, as well as a rational set of comparative criteria in the dimensions of *advanced economy, appealing environment* and *effective government* (Reputation Institute, 2016b). Table I compares the dimensions and items for both the corporate and country reputation constructs of the Reputation Institute's 2016 reports, which we use to show areas of similarity where value may overlap and be shared.

According to its 2016 CSR RepTrak® 100 report, the workplace (13.1 per cent), governance (14.5 per cent) and citizenship (13.6 per cent) dimensions, which represent the CSR Index, account for 41.2 per cent of the total corporate reputation score (Reputation Institute, 2016a). Alternatively, it can be said that leadership, performance, products and innovation, which are dimensions more traditionally related to the benefit of the firm and its corporate strategy, and less directly to the society, account for 58.8 per cent of corporate reputation. While CSR seems to play a prominent role in determining a firm's reputation, most of its reputation, even for firms with the highest CSR levels, comes from non-CSR criteria. Interestingly, with respect to country reputation, we see that the advanced economy dimension with many items such as *well-known brands*, *high-quality products and services* and *workforce education and reliability*, account for approximately a quarter of the country reputation (Reputation Institute, 2016b). Also, CSR is traditionally related to the firms more so than the society and contributes only 26.9 per cent to the Country RepTrak® score. This, at the very least, suggests that the bulk of country reputation is determined more by the appeal and governance of the country than the economic aspects tied more to firms.

Corporate reputation is an intangible asset determined by the firm's past behavior (Fombrun, 1996) and "the premium stream is then merely a normal rate of return on the "reputation" or "brand-name" capital created by the firm by these initial expenditures" (Klein *et al.*, 1978, p. 306). We can similarly say that a country's past behavior in relationship to other countries is what creates its reputational value. Country reputation and its effect on firms are less understood than other country of origin effects, particularly as it relates to corporate reputation (Newburry, 2012). Country reputation and corporate reputation are interrelated; while we recognize the country of origin effects on firms, the causal relationship is ambiguous (Newburry, 2012). Therefore, it seems both firm and country actions in the past help determine future reputational value, and we must acknowledge that this process is not only recursive, but dynamic and creates value that may be shared by both firms and the countries within them. As countries and firms evolve together, and become more developed, the amount of reputational value that is shared between them may increase in both absolute terms as well as proportionally. The higher proportional levels of shared reputational value

Table I.
A Comparison of dimensions of reputation institute's 2016 CSR RepTrak® 100 and country RepTrak®: the most reputable countries reports[a]

Country reputation		Corporate reputation	
Dimensions	Rational determinants	Dimensions	Rational determinants
Appealing environment (36%)	Friendly and welcoming Beautiful country Appealing lifestyle Enjoyable country	Workplace (13.1%) *CSR index component	Rewards employees fairly Employee well-being Equal opportunities
		Citizenship (13.6%) *CSR index component	Supports good causes Positive societal influence Environmentally responsible
Effective government (37.1%)	Safe place Ethical country Responsible participant in the global community	Governance (14.5%) *CSR index component	Open and transparent Behaves ethically Fair in the way it conducts business
	Effective government Progressive social and economic policies	Leadership (12.9%)	Strong leadership Visible leaders Managed effectively
	Operates efficiently Favorable environment for business	Innovation (14.0%)	Innovative company Makes or sells Innovative products Adaptive in the way it conducts business
Advanced Economy (26.9%)	Contributor to global culture High quality products and services	Performance (13.6%)	Strong financial performance High profitability Growth prospects
	Well-educated and reliable workforce Well-known brands Values education Technologically advanced	Products/Services (18.3%)	High quality products and services Excellent products and services Reliable products and services

Notes: [a]Information was derived from several sources on the Reputation Institutes website, www.reputationinstitute.com/Home, as well as main reports on the corporate reputation leaders in CSR and country reputation (Reputation Institute, 2016a, 2016b). Items associated with the *Leadership, Performance, Products* and *Innovation* dimensions of corporate reputation were extrapolated from other sources such as the Reputation Institute's *2016 Global RepTrak® 100* report, among others

may indicate that a firm's strategic goals, with respect to CSR initiatives, are more in line with societal needs and expectations. This alignment is at the heart of the CSV principles espoused by Porter and Kramer (2006, 2011).

Creating shared value

For the purposes of this paper, we must simplify and limit the extent of our constructs to avoid confusion. CSR initiatives constitute some of many strategic initiatives that can create value for the firm, or any other relevant constituent level, and, in turn, lead to enhanced corporate financial performance. Furthermore, reputation is only one form of value among others that may be generated from such initiatives. Therefore, when we describe our model for creating shared value, we limit the scope to those CSR initiatives that have created reputational value at different levels. That is to say, reputational value is created for both countries and corporations, and some of this value overlaps and is shared. There is a need to understand the relationship between the creation of shared value, where the reputational value created for countries and corporations overlap and align, which helps tease out differences between CSR and CSV.

While the country and firm reputational values may be shared differently in developed or emerging markets, the importance of reputation at both levels is increasingly seen as a necessary resource for sustaining a competitive advantage. Newburry (2012) highlights the importance of recognizing country of origin effects, a form of country reputation that can influence corporate reputation and vice-versa. The concept of CSV (Porter and Kramer, 2006, 2011) emphasizes that the competitiveness of a firm and the economic health of the communities around it are mutually dependent on each other. Porter and Kramer (2011) consider CSV as significantly different from CSR activities of the past, which have traditionally focused on costs of compliance with societally imposed standards of firm behavior. In contrast, Porter and Kramer (2011) recognize that there are short-term tradeoffs between firm profitability and meeting such societal standards but focus on the long-term opportunities for competitive advantage from acknowledging and integrating a "social value" proposition into corporate strategy. While we draw a great deal on Porter and Kramer's (2011) work on CSV to build our theory, we do acknowledge that other research (Beschorner, 2013; Hartman and Werhane, 2013) has highlighted alternative conceptualizations of CSV. For example, Hartman and Werhane (2013, p. 38) argued that the presumption made by Porter and Kramer (2011) about a "mutual understanding around the term profits" could be called into question.

The CSV concept transitions from the CSR concept as it constitutes a managerial philosophy allowing for the modern multinational enterprise to sustain itself in the twenty-first century marketplace. Porter and Kramer (2011) have identified multinational enterprises such as GE, Google, IBM and Unilever as having adopted shared value principles, with Nestle, for example, explicitly using the CSV conceptual framework in its corporate strategy (Epstein-Reeves, 2012). To fully embrace the shared value concept, Porter and Kramer (2011) recommend that firms should:

- reconceive products and markets to provide appropriate services and meet unmet needs;
- redefine productivity in the value chain to mitigate risks and boost productivity; and
- enable local cluster development by improving the external infrastructure that supports the firm's operations.

While CSR focuses on enhancing firm reputation by "doing good" in response to outside societal pressures for such firm behavior (and with the cost of "doing good" competing with the economic imperative of maximizing short-term profits), CSV is internally generated and not as restricted by financial constraints as CSR. Moreover, CSR tends to embrace a much more external focus in generating reputational value, as CSR is used to improve the public image of the company in the eyes of specific stakeholders, such as its attractiveness to potential employees (Luce *et al.*, 2001) or investors[3]. Thus, an externally driven reputation management policy, such as those found in many companies CSR policies, contrasts with CSV, whereby a firm takes the initiative to decide what is strategically important based on its own internal capabilities and circumstances. Indeed, rather than taking cues from external stakeholders who may not have a well-defined sense of the mission, goals, objectives and resource capabilities of a firm (Stamp, 2010), CSR initiatives aligned with firm goals are more likely to create value for both the society and the firm. The CSV approach is, thus, based on an internal approach to reputation management and, in turn, the reputational value created is more likely to be shared by both firms and countries. In other words, externally based CSR initiatives, as conceived by Porter and Kramer, are more likely to lead to reputational value mainly for the society (i.e. the country), whereas internally based CSR initiatives (i.e. CSV) are more likely to create shared reputational value for both country and company.

Management scholars have extensively researched the relationship between corporate social responsibility and corporate financial performance (Carroll and Shabana, 2010; Margolis *et al.*, 2009; Orlitzky *et al.*, 2003; Wang *et al.*, 2016). In many cases, corporate reputation is seen as a mediator in this relationship (Ali *et al.*, 2015; Fombrun, 2012), wherein CSR leads to reputational value in the form of supporting behaviors from stakeholders needed to enhance CFP. As the notion of CSV is still in its early genesis, the question of whether this concept has particular relevance in emerging economies is still empirically and theoretically unanswered. However, one seminal study conducted in the context of Australia, a developed economy, may provide some insight into this question (Freedman, 2013). In this study of the reputations of the 60 largest firms (by revenue) in Australia, which involved interviewing 5,527 members of the Australian general public (ages 18-64 years), researchers found a strong relationship between CSV and firm reputation. In fact, the study results found a significantly stronger relationship (correlation of 0.87) between CSV and firm reputation than between corporate philanthropy (a proxy for CSR, albeit focusing on one dimension of CSR) and firm reputation (correlation of 0.32).

Given the major disparity in this finding, the question of whether the concept of CSV would have similar importance in emerging economies is intriguing and empirically underexplored. Indeed, even though Orlitzky *et al.* (2003) find that although CSR outcomes that are externally based have a stronger effect on reputation, internally based accounting measures do as well, indicating that when both the internal and external pressures are more aligned in terms of CSR initiatives, as the CSV concepts recommend, shared reputational value will be maximized. As internally based CSR initiatives enhance the shared reputational value, that mediates the relationship between CSR and CFP, the overall relationship will become stronger too. Such relationships are referred to as moderated mediations (Edwards and Lambert, 2007; Preacher *et al.*, 2007). A moderated mediation occurs when the value of a mediating variable, in this case the proportion of shared value, may be partially or fully contingent on some moderating influences (Preacher *et al.*, 2007); this, in turn, effects the indirect relationship between two variables, in this case CSR and CFP, which is mediated. As we argue that the relationship between CSR and the proportion of shared reputational value created is affected by the firm's ability to strategically align its CSR initiatives with market expectations, at the first stage of the mediated pathway, this is referred to as a first-stage moderated mediation (Edwards and Lambert, 2007). Thus, we propose the following:

P2a. There is a positive relationship between CSR and CFP, which is mediated by shared reputational value.

P2b. As the proportion of shared reputational value increases, the relationship between CSR and CFP will strengthen by moderated mediation at the first stage.

Additional discussion, implications and propositions for emerging markets

Figure 1 captures the moderated–mediation relationship between CSR and CFP, by means of shared reputational value and market development level. However, how the value of reputation is, which is created and shared among countries and companies, is influenced by many contextualized circumstances beyond the broad category of market development. Below, we further discuss some of the contextualized nuances surrounding this relationship, including their impact and implications for researchers and practitioners, particularly related to the emerging markets such as those in Latin America.

Country reputation, according to the Reputation Institute's survey on the Most Reputable Countries, reflects both an emotional component of how respondents feel about the country and perceive it, as well as rational components that indicate whether it has an advanced economy, effective government and is an appealing country (Reputation Institute, 2016b). Many of the latter constructs creating the rational aspect of reputation are known to influence both CSR and reputation for firms. Indeed, the decision to engage in foreign direct investment (FDI) frequently rests on the reputation of the market with respect to its risks and opportunities. For example, Bengoa and Sanchez-Robles (2003) find that among 18 Latin American nations, between 1970 and 1999, economic freedom was positively related to FDI inflows and the presence of human capital, liberalized markets and market stability, which were also important for long-term capital growth. The report from the Reputation Institute also shows that only countries from advanced economies have strong to moderate country reputations, whereas most countries with weak to poor reputations are found in emerging economies. This anecdotal evidence surrounding the performance of the economy and country reputation closely parallels the strong relationship known to exist between CFP and corporate reputation (Fombrun and Shanley, 1990).

The role of market development in determining the strength of the relationship between CSR and CFP, as mediated by shared reputational value, certainly has implications for managers when considering whether to engage in CSR initiatives. Wang *et al.* (2016) find in their recent meta-analysis that CSR (overall) does, in fact, lead to higher corporate financial performance, at least in developed economies; this finding perhaps indicates that as emerging economies become more developed institutionally and economically, CSR will hold similar importance. Thus, emerging economies are not only a critical area for future research in international business (Cuervo-Cazurra and Ramamurti, 2014; Martinez and Kalliny, 2012; Rottig, 2016; Vassolo *et al.*, 2011), but also particularly important for comparative research in the creation and use of firm and country reputation owing to the existence of institutional voids (Khanna and Palepu, 1997) and distance (Kostova and Zaheer, 1999) in relation to developed economies. Given recent findings that CSR (overall) enhances CFP more in developed economies than emerging ones, it may be an indication that the mediating role of reputational value is more prominent in developed economies than emerging ones. Stated another way, the positive relationship between CSR initiatives and reputational value is stronger in developed markets than emerging ones where stakeholder support resulting from CSR is more likely, which is why the CSR–CFP relationship is stronger there.

Consistent with research demonstrating the effect of cross-national institutional differences on CSR responsiveness (Marano *et al.*, 2017), Deephouse *et al.* (2016) find that differences in institutional development and national culture also impact corporate reputation. Naturally, as institutional development, culture and other regional and country-level factors may influence both CSR initiatives and firm reputation, country reputation is likely related to these factors as well. However, little work has been done correlating the reputation of the country of origin with firm reputation and understanding the causal relationship between the two (Newburry, 2012). While both practitioners and academics recognize the importance of firm and, to a lesser extent, country-level reputation, their respective value is also contextualized. Having a solid reputation has been linked to greater financial performance for firms (Bergh *et al.*, 2010;

Deephouse, 2000) as it sends market signals to relevant stakeholder groups about their legitimacy within the community. In addition to attracting more consumers (Park *et al.*, 2014), a favorable reputation is linked to increases in the quality of the applicant pool for jobs (Turban and Cable, 2003; Wang, 2013) and attraction of investors (Raithel and Schwaiger, 2015), all important stakeholder groups for the firm. Naturally, reputation is regarded as a valuable resource for sustained competitive advantage (Barney, 2000; Bergh *et al.*, 2010). However, its value can vary a great deal in relation to the stakeholders in each country (Soleimani *et al.*, 2014). It is clear from previous research that the context matters a great deal and that the institutional and economic differences, among others, will influence the stakeholders' leverage and perceptions of value afforded by reputation.

Further, this relationship suggests that in emerging economies, where the external focus may be less aligned with the internal focus of firms, there may be significantly more tradeoffs between CSR initiatives that help the firm and those which help the society. Indeed, in such markets where institutional voids and market imperfections have not been smoothed out through competitive and other isomorphic pressures, strategic initiatives to match institutional needs of stakeholders are also less likely to be uniform. Organizations attempting to align their internal strategic initiatives to respond to such an environment will experience greater difficulty. In emerging markets, the amount of overlapping, or shared reputational value, from CSR initiatives is likely to be much lower than in developed markets, making the process of CSV more difficult (Figure 2). Thus, we propose the following:

P3a. The level of market development will positively moderate the relationship between CSR and the proportion of shared reputational value.

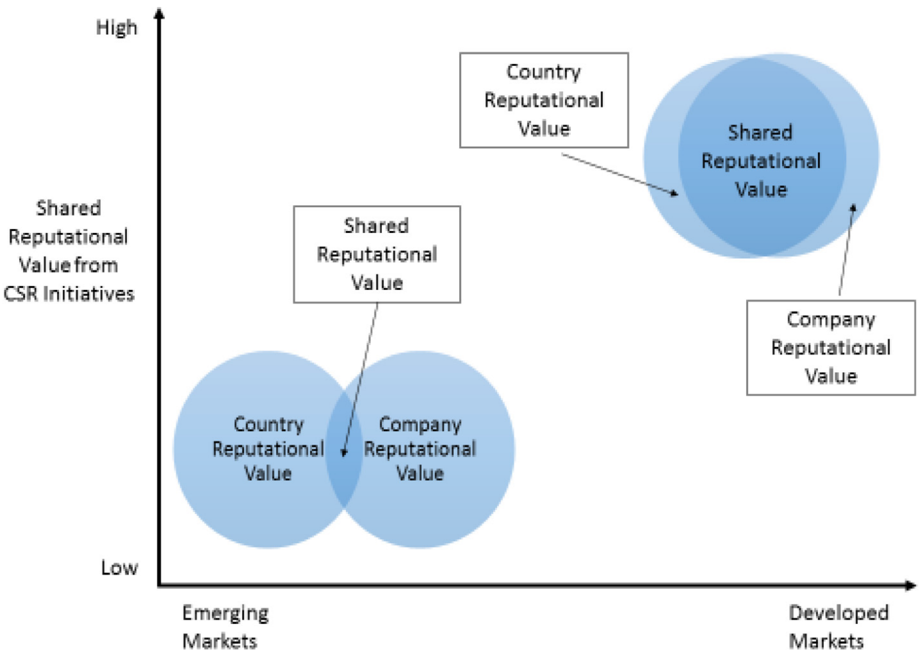

Figure 2.
The relationship between CSR initiatives and the proportion of shared reputational value, moderated by the level of market development (emerging vs developed) (*P3a*)

There is a general need for more research in emerging markets, especially in the context of Latin America (Martinez and Kalliny, 2012). The Latin-American GDP collectively rivals that of China and India (Vassolo *et al.*, 2011), emerging markets that generally receive the most academic and media attention. Consequently, while the utility of reputation is well established for developed economies, there is very little research on reputation in the emerging economies of Latin America (Borda *et al.*, 2017; Cuervo-Cazurra and Dau, 2009; Newburry, 2002). While one could make the case that our theory could apply to all emerging nations, we consider that Latin America remains particularly well suited to making general theoretical predictions on reputation and shared value given the region's important homogeneity as it relates to language and history (Cuervo-Cazurra and Dau, 2009).

If we consider reputation as a portion of the value that is created by the past actions of firms and countries and then shared, we must seek to further tease out how this value is shared and perhaps acknowledge additional nuances among emerging economies. We know from previous research by Soleimani *et al.* (2014), that CSR does not necessarily lead to higher reputation for firms overall, though evidence suggests that it leads to greater CFP overall (Orlitzky *et al.*, 2003) and even more so in developed economies (Wang *et al.*, 2016).

Further evidence from the 2016 Reputation Institute report on company reputations indicates that even the highest reputed companies in CSR still derive a majority of their reputation score from non-CSR factors (Reputation Institute, 2016a). Conversely, the Reputation Institute's Country RepTrak® at least suggests that the advanced-economy dimension, most related to firm and non-societal indicators, contributes the least to country reputation. Overall, this evidence highlights that most of shared reputational value accrues to the country from CSR and to the firm from non-CSR activities. In addition, as we assume CSR has more of an impact on CFP in developed economies than in emerging ones, and CFP also is a strong determinant of corporate reputation, it appears a greater share of reputational value will accrue to the firm from CSR as the economy becomes further developed. This is a likely result as CSR initiatives are more easily aligned with corporate strategies, leading to better organizational and financial performance, and, in turn, higher company reputation, in a recursive process (Fombrun, 2012). Managers operating in emerging markets should, therefore, consider the possibility that while engaging in CSR initiatives may enhance reputational value, a greater amount of this value is likely to go to the country reputation than the company reputation, and this value is less likely to overlap intrinsically and be shared.

Beyond this, however, country and firm reputations have both rational and emotional components. Rationally determined country reputation feeds into an emotional assessment of country reputation that, all else being equal, should be at equilibrium so long as there is stability in signaling events from the country. Of course, there is rarely stability in the world and, therefore, the emotional assessments seldom match the rational determinants in reputation, and they are constantly moving up and down (Reputation Institute, 2016b). However, there is some noticeable anecdotal evidence surrounding the fluctuations and disparities between such assessments. For instance, most of the countries that showed the largest significant[4] declines in reputation since 2015 (*Turkey −7.0 points, Saudi Arabia −4.7 points, Belgium −4.3 points, Greece −3.9 points, Nicaragua −3.7 points, Egypt −3.4 points, India −2.4 points, Ecuador −1.9 points, Morocco −1.7 points, United Arab Emirates −1.7 points, Germany −1.4*) would appear to be from developing or emerging economies (Reputation Institute, 2016b, p. 16). Belgium, which showed the third largest decline, was the only developed nation with what the Reputation Institute qualifies as "strong reputation" before 2016. The top four largest declines had high-visibility (negative) country events during this period warranting an emotional reaction manifest in reputation. Turkey has had political instability as a result of the attempted coup in 2016 (among other events), Saudi Arabia has had both a precipitous decline in revenues from falling oil prices (since 2014) and the death of King Abdullah (early 2015), Belgium has had several terrorist related events and Greece defaulted on its loan from the IMF as a result of decisions made by its new anti-austerity prime minister, Alexis Tsipras. Many of the largest improvements in country reputation (*France + 4.9 points, Russia +4.7 points, Peru +2.9 points, Bolivia +2.3 points, Italy +2.3 points, Czech Republic +2.2 points, Portugal +2.2 points, Paraguay +2.1 points, Ireland +2.1 points, Iraq +2.1 points*; Reputation Institute, 2016b, p. 18) were also in emerging economies or in countries that had experienced high-profile terrorism (France), military aggression (Russia) or other economic and political crises during the years before the 2015 assessments.

Logically, as the main dimensions of country reputation have an advanced economy, appealing environment and effective government, developed countries are likely to see higher scores and more stability in scores than emerging markets, in which high-profile events that alter emotional assessment are more frequent. Bengoa and Sanchez-Robles (2003) find, in a study (mentioned earlier) of 18 Latin-American countries between 1970 and 1999, that FDI is positively correlated with economic freedom. As reputation is derived from assessments of past behavior that helps determine legitimacy and shapes future expectations, instability in the country will not only lower its reputation, but also, through country of origin effects, lower reputations for firms that originate from these countries. Consequently, the shared value created in emerging markets is likely to be lower, particularly if they are larger and have high-profile (negative) events.

In Latin America, two nations in particular have recently experienced high-profile negative events. Brazil, for example, has for the past few years been rocked by the corruption scandal, leading to the impeachment of its former president, Dilma Rousseff. In addition to political instability, large-scale economic downturns, inflation and currency depreciation have also affected the business climate negatively. However, perhaps the high-profile negative event with the greatest impact has been the economic and systemic collapse in Venezuela that has led to large-scale protests against the Government and many deaths. However, countries that have sharpest declines in country reputation also have the potential for the greatest improvements in country reputation in subsequent years so long as there is elasticity (i.e. how quickly they are likely to return to normal) in elements that contribute to it. Brazil, for instance has had an impeachment and economic turmoil but has not had such systemic failures as to cause massive rioting and death, such as Venezuela. While Venezuela may have the greatest amount of country reputation to recover, it is also less likely to rebound as quickly as Brazil given each country's unique circumstance.

Unfortunately, economic and political turmoil are not uncommon in Latin America, and such instability does not enhance solid country reputations and may have spillover effects to other countries within the region. In addition, we expect the potential reputational damage of these recent events to be exacerbated by the importance of history. As noted elsewhere, reputation could be conceptualized as a portion of the value that is created by countries' past actions. Latin America has been affected by several severe economic and political crises and political instability during the past few decades, which may play a key role in the recent emotional assessments of countries that compose the region (Borda *et al.*, 2017). For example, the debt and macroeconomic turmoil of the 1980s prompted some experts to call the decade "the lost one", leading various Latin American Governments to succumb to international creditors' demands to undertake extensive pro-market institutional reforms (called the "Washington consensus"), which, in turn, destabilized many economies of the region (Trinidad, 2006). While emerging markets such as India or China still may suffer from market imperfections, making it difficult to internally align their CSR initiatives and create shared reputational value for both the firm and country, they are perhaps not as volatile as many Latin-American nations (Figure 3). Furthermore, they do not have the recent history of volatility that still permeates the region. In short, we believe that the impact of history could be embedded in some emerging markets such as Latin-American countries' fabric (Newburry, 2012), which, in turn, could influence the emotional evaluation of these countries with respect to volatility. Thus, we propose the following:

P3b. The level of emerging market volatility will negatively moderate the relationship between CSR and the proportion of shared reputational value.

Conclusions and limitations

In this paper, we have shown that the process of CSV is a dynamic and complicated one for managers. This presents a great opportunity for future research to further our understanding of the process of shared value creation that is of strategic importance to firms (Porter and Kramer, 2011). Furthermore, disentangling the relationship between firm and country reputation is a critical area for research (Newburry, 2012), particularly in relation to CSR and CSV. Managers play a key strategic role in intrinsically based decisions related to CSR initiatives that may create value in the form of reputation that is shared both by firms and countries. We posit that as

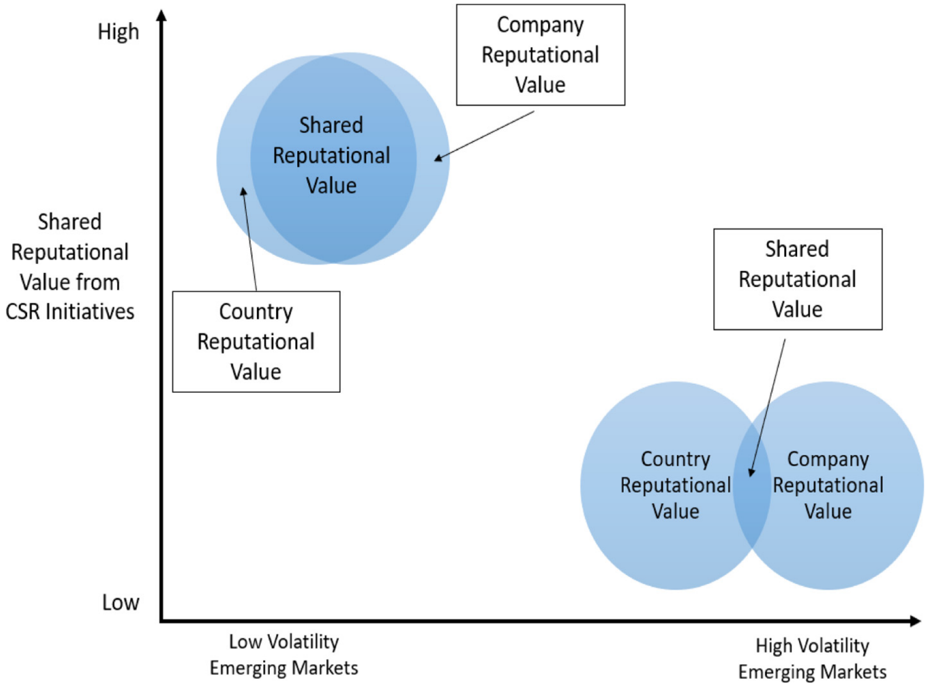

Figure 3. The relationship between CSR initiatives and the proportion of shared reputational value, moderated by the level of emerging market volatility (low vs High) (*P3b*)

emerging economies become further develop, CSR will play a greater role in determining CFP. Anecdotal evidence suggests that value from CSR initiatives accrues more in the form of country reputation in emerging markets, but as the countries develop, reputational value will likely accrue more in the form of corporate reputation and, in turn, the proportion of shared reputational value, which will enhance corporate financial performance. Countries with higher level of development and stability will produce more shared value, in the form of reputation, than unstable nations that are more likely to experience high-profile (negative) events. Emerging markets, such as those in Latin America, are, therefore, less likely to produce shared value in this form as such events may be more frequent. Managers will play a key role in the process of creating shared value and mitigating risks.

As a first attempt to propose a theoretical framework to examine the interplay between CSR and CFP from a shared value perspective, our paper has some limitations that may present some fruitful avenues for future research. We posit that CSV may enhance corporate reputation more than CSR, and it may already play a prominent role in enhancing firm performance in emerging economies, but this will increase in value as corporate strategy becomes more aligned with the institutional demands in markets in which firms operate. While there is strong theoretical rational for this, little empirical evidence supports it so far, leaving room for future research. This also relates to the difficulty for future studies to test our theory given the paucity of data in emerging economies as well as challenges in operationalizing some key constructs under study in our research. In attempting to study CSV, it seems appropriate to examine reputational value as part of the construct. In this case, our theory suggests that for a high amount of shared value to occur, there must be companies with high reputational value operating in countries with high reputational value and this will lead to higher CFP. Thus, future scholars may wish to consider some two-stage least squares (2SLS) regression techniques that may attempt to account for autocorrelation (recursive relationships between variables), coupled with other variance decomposition techniques. Furthermore, as the idea of shared reputational value may in fact be a latent construct, and CSR initiatives effect on country reputation may be best examined in aggregate, models that potentially account for nested variables, such as hierarchical linear models or abstract constructs as with structural equation models, may be needed.

In addition, considering the weakness of reporting requirements in certain emerging countries and the lack of informational intermediaries, it will be extremely challenging to obtain CSR, CFP and reputational data to conduct multi-country empirical studies. Second, while the theoretical focus of our paper is on emerging economies and Latin-American countries, we acknowledge the fact that important nuances may exist among these countries that are likely to impact reputational assessments. For example, emerging economies may differ in their level of economic openness. Borda *et al.* (2017) argue that a country's economic openness is likely to influence the assessment by stakeholders of firms' strategic behaviors. To simplify our arguments on market development, we broadly grouped emerging markets and developed ones, and only recognize limited differences with respect to Latin America. We must also acknowledge that the impact of CSR initiatives on country reputation will be much greater because of the aggregate initiatives of all firms in the country, related to the size of firms, and the very nature of the initiatives in line with the determinants of country reputation. While the examination of such differences is beyond the scope of our paper for the sake of parsimony, we encourage future research to explore this issue.

Notes

1. There is a growing body of research that reports a positive relationship between a stellar corporate reputation and superior financial performance of the business enterprise (Caliskan *et al.*, 2011; Eberl and Schwaiger, 2005; Inglis *et al.*, 2006; Roberts and Dowling, 2002; Rose and Thomsen, 2004; Zhang and Rezaee, 2009).

2. Fombrun *et al.* (2000) argue that activities that generate CSR will affect the enterprise's stock of "reputation capital", i.e. the financial value of its intangible assets, rather than directly through a company's financial performance. Examples of such reputational capital can include "political" capital, useful in the public policy arena when influencing legislative and regulatory outcomes, and with non-governmental organizations (NGOs), when developing coalitions of stakeholders around a public issue. The role of intangible assets is a generally accepted concept of value creation in today's economy (Neely *et al.*, 2003; Schwaiger, 2004).

3. Some critics from developing countries have characterized the CSR agenda as being too centered on issues of interest to developed countries, i.e. concerning the "lifestyle" dimension, rather than on those issues of immediate concern to people living in developing countries, such as taxation (Blowfield and Frynas, 2005; UNRISD, 2003).

4. According to the Reputation Institute's 2016 report on the *Most Reputable Countries in the World*, "All RepTrak® Pulse scores that differ by more than +/− 1.4 are significantly different at the 95 per cent confidence level". These are score differences between 2015 and 2016.

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Corresponding author
Keith James Kelley can be contacted at: keithkel@umflint.edu