The predators assuage to the prey – The effectiveness of CSR initiatives of companies in Kerala

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The Predators Assuage to the Prey – The Effectiveness of CSR Initiatives of Companies in Kerala

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Abstract

The dimensions of the triangular relationship between companies, the state and the society has been rapidly transforming ever since the dawn of the present millennium and firms can no longer continue to act as independent entities regardless of the interest of the general public. The relationship between companies and society has been evolving from that of philanthropic coexistence to that where the mutual interest of all the stakeholders are given paramount importance.

Corporate Social Responsibility (CSR) has become one of the key elements of sustainable business. In today's highly competitive globalised business world, success of a business depends on its acceptability to all stakeholders – shareholders, customers, employees, suppliers, government and general public. An examination of the present status of corporate social responsibility (CSR) would be an ideal starting ground for the conceptual development of suitable corporate business practices for emerging markets.

Kerala, has achieved social and educational development comparable to most Western nations and has been acclaimed worldwide for its Kerala model of development though this achievement is not yet matched by industrial growth or economic development. With over a thousand companies registered and head quartered within the state coupled with many national and international ones operating in the state, will this regulatory mandate on CSR spending be a shot in the arm in social development of the state is a question that seeks answer from various quarters. The combined CSR spending in Kerala by all the qualified entities put together will work out to be around Rs 350 core to Rs 400 crore[i].

It is in the backdrop, the study examined the CSR effectiveness of seven drivers namely regulatory compliances, brand reputation, employee interests, community concerns, investor interests, environmental interests and sustainability initiatives as identified by companies in Kerala in design and implementation of their CSR initiatives.

The study relied on structural equation modelling based on partial least squares path modelling (PLS-PM) using data collected from 91 executives, who are directly involved in CSR planning and implementation, from companies in Kerala – both in public and private sector. The first order constructs as mentioned as drivers of CSR were modelled with five measured variables each and the second order construct

namely effectiveness of CSR was evaluated using standardised construct scores of the first-order constructs as indicators. The responses to measured variables were obtained on a 5-point scale and the parameters of model were tested for internal reliability, convergent and discriminant validity and fitness indices. The results of analysis revealed that overall model fit was adequate, with all the validity conditions being met, all the drivers of CSR showed a high coefficient of determination of more than 0.43 except the employee interests which showed an R-squared of only 0.32. The dependent variable namely sustainability where all the other 6 drivers converge showed an R-squared of 0.70.

Keywords: CSR drivers, Sustainability, PLS-Path Modelling, CSR effectiveness

Introduction

The dimensions of the triangular relationship between companies, the state and the society has been rapidly transforming ever since the dawn of the present millennium and firms can no longer continue to act as independent entities regardless of the interest of the general public. The relationship between companies and society has been evolving from that of philanthropic coexistence to that where the mutual interest of all the stakeholders are given paramount importance.

Corporate Social Responsibility (CSR) has become one of the key elements of sustainable business. In today's highly competitive globalised business world, success of a business depends on its acceptability to all stakeholders – shareholders, customers, employees, suppliers, government and general public. The civil society expects companies to do business responsibility. It is now well accepted that while pursuing the objective of profit making, companies have to care the interest of all the stakeholders. Stakeholders are aware of the importance and impact of corporate decision making upon society and environment, and because of this, companies are motivated to involve them in their decision making and address societal challenges. Now there is a strong business case for CSR. In developing economies like India, CSR is seen as part of corporate philanthropy in which corporations augment the social development to support the initiatives of the government. However, with time, the scenario of CSR has changed from philanthropic to socially responsible multi stake holders.

Kerala, a small state at the south west tip of India, with roughly 2.76 percent (33,406,061 out of 1,210,193,422) of India's population as per 2011 census data, contributed only 3.78 percent of India's GDP in 2014-15 according to World Bank statistics on overview of India. However, as per the census of Indian states 2011, this small state of Kerala is the highest literate state in the country with 93.91 percent literacy rate and has the highest sex ratio with 1084 females per 1000 males. It has achieved social and educational development comparable to most Western nations and has been acclaimed worldwide for its Kerala model of development though this achievement is not yet matched by industrial growth or economic development.

The Research Problem

The Companies Act 2013 stipulates companies to shell out 2% of their net profit on CSR projects. This can be viewed as a windfall on various social welfare

schemes in the state, a spark kindled by conscious efforts funded even through budgetary allocations by alternate governments in state from time to time, irrespective of their political and ideological differences. With over a thousand companies registered and head quartered within the state coupled with many national and international ones operating in the state, will this regulatory mandate on CSR spending be a shot in the arm in social development of the state is a question that seeks answer from various quarters. The combine by all the qualified entities put together will work out to be around Rs 350 core to Rs 400 crore CSR spending in Kerala.

The challenges facing CSR activities include lack of community participation, inadequate local capacity building, lack of transparency, non- availability of well - organized non - governmental organizations, narrow perception towards CSR activities, non-availability of clear guidelines and lack of consensus on implementing CSR practices.

The extent to which CSR actions initiated through seven drivers namely regulatory compliances, brand reputation, employee interests, community concerns, investor interests, environmental interests and sustainability initiatives as identified by companies in Kerala in design and implementation of their CSR initiatives has to brought under the scanner.

Significance of the study

Confining themselves to the constraints of finance, every state government looks upon corporate sector operating in the state to make substantial investment in societal development as part of their CSR whether it be mere compliance to legal and regulatory requirements or not. The state of Kerala with 1310 public limited companies registered as on 31 March 2014 and much more operating within the geographical boundaries is expected to witness a paradigm shift in the commitment of companies to society and environment with the regulatory stipulation in The Companies Act 2013 which made it mandatory for companies over a net profit of Rs. 3 crore and above to shell out 2% of their net profit on socially responsible initiatives. The extent to which the companies in Kerala view the key drivers of CSR practices assumes added significance in the light of Kerala Government's attempts to sustain the state as the one with the highest social development.

Objectives of the study

With a view to address the research problem identified above, the study is aimed at the following.

1. To develop a structural equation model which explains how far the identified drivers of CSR explains the variations in effectiveness of CSR in Kerala.
2. To explain the strength of each of the CSR drivers in causing sustainability element of CSR initiatives.

Literature Survey

Before arriving at the research problem and identification of the ultimate research questions, the extant literature on CSR at global level, national level and state level was surveyed. The major focus of literature on Corporate social responsibility (CSR) as a concept in which an organization is considerate about the societal interests

revolve around concepts as is obvious from findings such as CSR and corporate citizenship are closely related (Bowen, 1953; Carroll, 1979; Mason, 1960); CSR is related to corporate social responsiveness (Ackerman & Bauer, 1976; Frederick, 1998; Strand, 1983). CSR is also related to corporate social performance (Stanwick & Stanwick, 1998; Swanson, 1995; Wood, 1991) and stakeholder management (Donaldson and Preston, 1995; Jones, 1995). The common idea which holds good with regard to all these concepts is that any organization should not exclusively make profit; but it should also be a part of "actions that appear to further some social good, beyond the interests of the firm and that which is required by law'' (McWilliams et al., 2006).

The extent of CSR awareness is crucial to determine the company management. The four key drivers such as economic drivers, social drivers, political drivers and individual drivers cause the development of organizational sensitivity to the organizational environment and CSR issues. The first three drivers can be termed as market-based which react or extend help when a risk arises with regard to the social impact of a specific business practice (Mazurkiewicz, 2004). The last driver namely individual driver is value-based which emphasizes the fact that CEOs highlight the ethical norms for an organization (Agle et al., 1999; Waldman & Siegel, 2005). Employees too usher in their values to the workplace (Robertson, 1991).

A study carried out by Mirvins and Googins propagated that a company does not remain at one stage of corporate citizenship for a long period. But companies are "ahead in some dimensions and behind in others." A single company may be at different stages when various aspects of the business are concerned. For example, a company can be at the stage of leadership; but at stage three of the structure. This is due to the various dimensions of development which affect a business enterprise. These factors can be broadly classified into internal motivators or drivers and external pressures or drivers.

Narwal (2007) emphasized the CSR initiatives undertaken for Indian Banking and hoped it would help them to improve their performances. Mittal et al. (2008) studied how Indian companies report the trend of disclosure of the CSR. The researchers, in the study, try to identify the relationships between the ethical commitment and the financial performances for over a period of four years. The study used various statistical regressions and correlational analysis. Companies do not always receive positive reinforcement and rewards for their CSR performance. In certain circumstances, CSR initiatives may even decrease due to the customers' intentions to purchase a certain product (Sen & Bhattacharya, 2001).

Methodology

The study relies on structural equation modelling based on partial least squares path modelling (PLS-PM) using data collected from 91 executives, who are directly involved in CSR planning and implementation, from companies in Kerala – both in public and private sector. Only one sample was drawn from each of the company selected. While three fourth of the respondents were from companies in the private sector only a quarter of the total respondents represented public sector enterprises.

The first order constructs as mentioned as drivers of CSR were modelled with five measured variables each and the second order construct namely effectiveness of

CSR was evaluated using standardised construct scores of the first-order constructs as indicators. The responses to measured variables were obtained on a 5-point scale and the parameters of model were tested for internal reliability, convergent and discriminant validity and fitness indices.

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Results and Discussion

The profile of the companies from where sample was selected is shown in Table 1.

Table 1 *Profile of Companies from where sample was drawn*

Sector		Frequency	Percent	Cumulative
Public		22	24.2	24.2
Private		69	75.8	100
	Total	91	100	
Nature		Frequency	Percent	Cumulative
Manufacturing		53	58.2	58.2
Service		38	41.8	100
	Total	91	100	
Size		Frequency	Percent	Cumulative
Heavy		6	6.6	6.6
Medium		40	44	50.5
Small		45	49.5	100
	Total	91	100	
Base		Frequency	Percent	Cumulative
Kerala		63	69.2	69.2
Other Indian States		26	28.6	97.8
Foreign		2	2.2	100
	Total	91	100	
Source: Primary data				

While 60 percent were in manufacturing sector the rest were engaged in services. Only 6.6 percent of the total companies were heavy industries, whether from public or private sector, while majority (49.5%) was small sized firms immediately followed by medium sized firms (44%). Regarding base of operation in terms of location of head-quarters, only 2.2 percent were foreign firms while majority (69.2%) were companies registered in Kerala with head-quarters in the state itself whereas 28.6 percent of the companies from where samples were drawn are headquartered outside the state of Kerala but operates in the state of Kerala too

The model formulated for the measuring CSR effectiveness through first order constructs namely seven drivers such as regulatory compliances, brand reputation, employee interests, community concerns, investor interests, environmental interests and sustainability initiatives as path diagram is graphically represented in Figure 1.
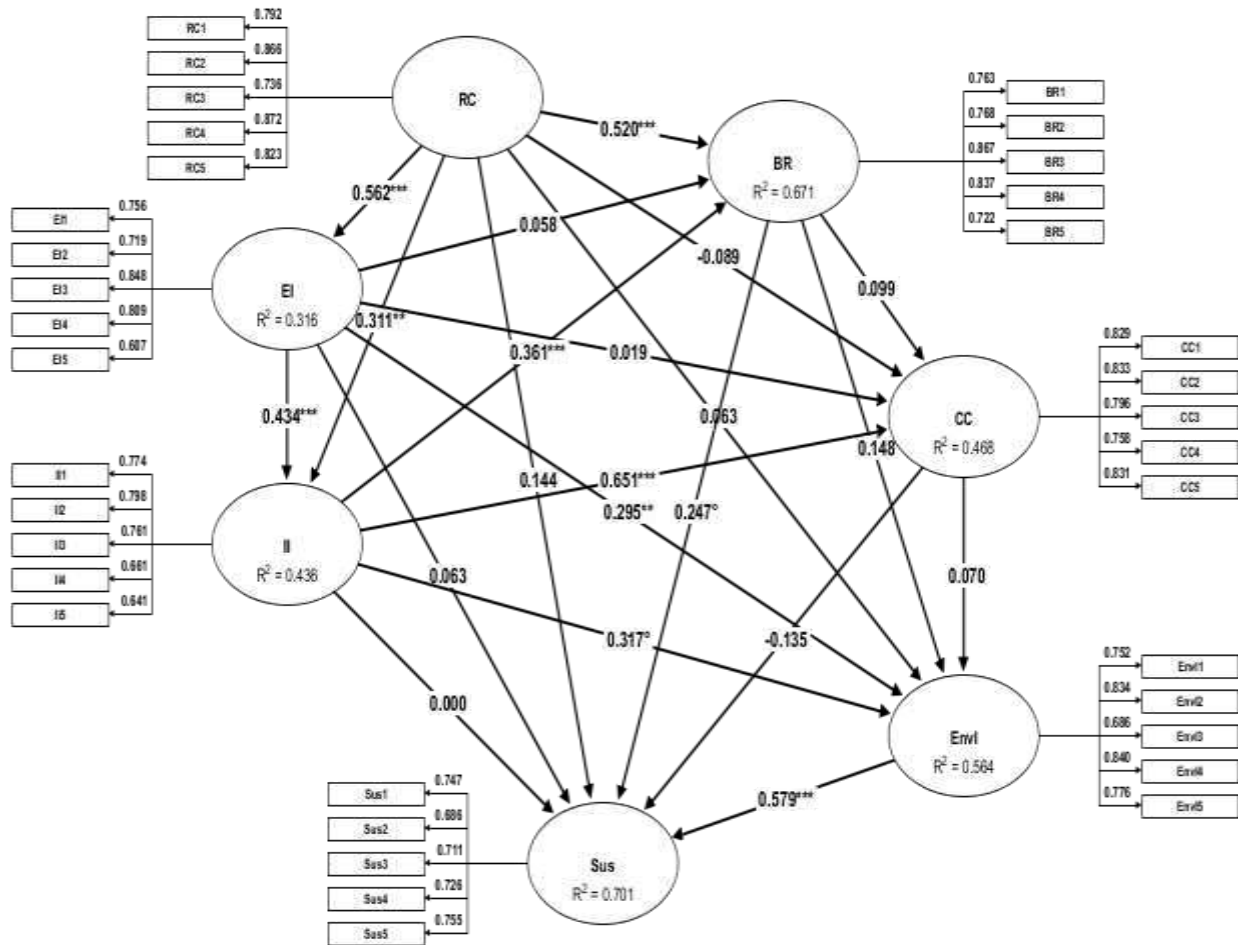

Figure 1. *CSR drivers – PLS - Path Model*

The goodness of the overall fit model was established through its Standardised Root Mean Residual (SRMR) value of 0.0782 which was less than 0.08 the threshold value. The coefficient of determination of latent variables to which regulatory compliance regresses along with construct reliability and convergent validity of the model is shown in Table 2.

Table 2 *Construct Reliability & Convergent Validity of the Model*

Construct	Structural Model		Construct Reliability	Convergent Validity
	Coefficient of determination (R^2)	Adjusted R^2	Cronbach's alpha(α)	Average Variance Extracted (AVE)
Regulatory Compliance (RC)			0.8764	0.6711
Brand Reputation (BR)	0.6708	0.6594	0.8519	0.6293
Employee Interests (EI)	0.3164	0.3087	0.8047	0.5663
Customer Concerns (CC)	0.4679	0.4432	0.8702	0.6559
Investor Interests (InvI)	0.4364	0.4236	0.7774	0.5325
Environment Interests (EnvI)	0.5645	0.5388	0.8366	0.6075
Sustainability (Sus)	0.7010	0.6797	0.7757	0.5261

The coefficient of determination represented by R-squared and adjusted R-squared were reasonably high enough to represent a better fit, since none of them were below 0.30. The highest R-squared of 0.70 in the case of sustainability where all the other CSR drivers regress into indicated strength of the driver. Table 3 depicts the discriminant validity of the latent variables in the model.

Table 3 *Discriminant Validity - Fornell-Larcker Criterion*

Construct	RC	BR	EI	CC	InvI	EnvI	Sus
Regulatory Compliance (RC)	0.6711						
Brand Reputation (BR)	0.5659	0.6293					
Employee Interests (EI)	0.3164	0.3245	0.5663				
Customer Concerns (CC)	0.1278	0.2386	0.1777	0.6559			
Investor Interests (InvI)	0.3078	0.4684	0.3703	0.4638	0.5325		
Environment Interests (EnvI)	0.2928	0.3779	0.4063	0.2553	0.4634	0.6175	
Sustainability (Sus)	0.3973	0.4643	0.3563	0.1270	0.3478	0.6100	0.5261
Squared correlations; AVE in the diagonal.							

The Fornell-Larcker Criterion necessitates the values in the diagonal to be highest than the other values in its row and column in order to achieve the discriminant validity of constructs. Having met this condition, the model under review was found to have achieved the discriminant validity for each of its constructs.

Table 4 shows the goodness of fit of the estimated model.

Table 4 *Goodness of Fit – Estimated Model*

	Value
SRMR	0.0759
d_{ULS} (Unweighted least squares	2.2931
d_G (Geodesic discrepancy)	3.5070

Since the lower the d_{ULS} and the d_G, the better the theoretical model's fit it can be inferred that the model under review is fit enough ro identify the impact of drivers on effectiveness of CSR of companies in Kerala.

With a view to identify the impact of CSR drivers on the effectiveness of CSR of companies in Kerala, the standardised construct scores of each of the constructs (CSR drivers) obtained from the initial model were used in the model identified for second order construct, shown below as figure 2.
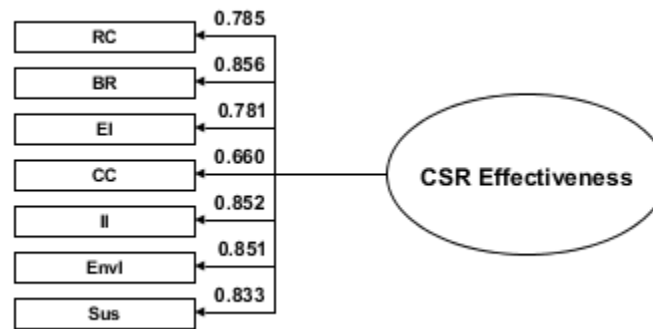

Figure 2*: CSR Effectiveness – Second Order Construct*

The construct reliability of the second order construct (Cronbach's alpha = 0.9082) and convergent validity (AVE=0.6485) proved the validity of the model. The null hypothesis formulated as 'The individual drivers of CSR are not good predictors of effectiveness of CSR' was tested. It was observed that all the CSR were good predictors as is observed from the high loadings ranging from 0.660 to 0.856. While brand reputation and environmental interests loaded very highly customer concerns was found to have the lowest loading, in spite of being a good predictor of CSR effectiveness of companies in Kerala.

Conclusion

Regulatory compliance is supposed to be the most important driver for CSR initiatives while investor interest and environment protection may be of prime importance. While the key drivers of CSR activities may not the same across the public and private sectors, significant impact of the CSR drivers namely regulatory compliance, brand reputation, community concerns, investor interests, environmental interests and sustainability were observed on the effectiveness of CSR initiatives in Kerala. The PLS-PM modelling on effects of other CSR drivers on sustainability and the impact of all drivers on CSR effectiveness revealed that the loadings of regulatory compliance and environmental interests on sustainability were significant, whereas the loadings of all the other drivers on sustainability were insignificant. However, all the CSR drivers were found to significant impact the effectiveness of CSR initiatives of companies in Kerala.

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[i] http://corporateethos.com/public-sector/137-kerala-cos-in-csr-radar/