

An Assessment of Corporate Social Responsibility of Small Manufacturing Firms

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Abstract

Imparting an outstanding corporate responsibility had become tag of the contemporary business. Corporate social responsibility augments the business image, adds on the profitability, generates wider market share, recognizes its duties towards the society, and develops confidence in the minds of the customers and so on. The present study assesses the corporate social responsibility of 44 small manufacturing units operating in District Udhampur of J&K State. The research framework was examined by empirical analysis of primary data collected. Validity and reliability of the scales in the construct were assessed through BTS and Cronbach-alpha. The results of Chi-square, linear regression analysis revealed positive association of societal safeguard with corporate social responsibility, corporate social responsibility promotes ethical considerations of small scale manufacturers and adoption of corporate social responsibility leads to effective relationships. Further, Government should appreciate and come up with more and more amenities in order to promote social welfare.

Key Words: Corporate Social Responsibility (CSR), Small Manufacturing Firms, Business.

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1. INTRODUCTION

By the 1990s, building a reputation for corporate social responsibility (CSR) became a top priority for nearly all of the world's largest companies, especially major transnational corporations based in North America or Western Europe whose main business involved the delivery of consumer products or services (**Goldman and Papon, 1998** and **Knight and Greenberg, 2002**). CSR, a notion that can be traced back to the 1940s and 1950s, requires business organisations to encompass "the economic, legal, ethical, and discretionary (philanthropic) expectations that society has of organisations at a given point in time" (**Buchholtz and Carroll, 2008** and **Whysall, 2004**). **Carroll (1991)**, perhaps the most widely cited authority in the field, divides CSR into four segments. First, a business must consistently and successfully pursue maximum profitability as an economic responsibility. Second, a business must always be aware of and comply with all laws and regulations—at every level in the communities where it operates— related to its delivery of products or services in order to meet its legal responsibilities. Third, a business must go beyond legal or regulatory mandates and operate in a way that respects the concerns and values of society at large—and be prepared to adjust to new values and concerns in order to meet its ethical responsibilities. Fourth, a business must support—in the way it deems most effective— educational, religious, artistic, medical, social welfare, or other charitable endeavors in order to meet its philanthropic responsibilities. Now-a-days, a key ingredient to engage the private sector in the country's development debate is the practice of Corporate Social Responsibility (CSR). Corporate Social Responsibility can be defined as a commitment to improve the community's well-being through discretionary business practices and contributions of company resources (**Kotler and Lee, 2008**). Corporate Social Responsibility has been gaining momentum and private sector engagement is at the helm. Amidst the challenge of developing a mutual beneficial relationship between the local community and private sector entities, there is a need for greater Government involvement. The conventional approach to corporate social responsibility used to be simply "Fulfilling an Obligation". This traditional approach versus the new strategic approach to corporate philanthropy seeks to balance contribution with the concept of the greater good. In order to sustain and strengthen such innate corporate social responsibility there must be a strong involvement in the relationship (**Bedbury and Fenichell, 2002**) and (**McCaffery, Kahneman, and Spitzer, 1995**).

2. REVIEW OF LITERATURE

Corporate social responsibility (CSR) is also known by a number of other names. These include corporate responsibility, corporate accountability, corporate ethics, corporate citizenship or stewardship, responsible entrepreneurship, and "triple bottom line," etc. As CSR issues become increasingly integrated into modern business practices, there is a trend towards referring to it as "responsible competitiveness" or "corporate sustainability" (**Boltanski and Thévenot, 2006** and **Daigle and Rouleau, 2010**). A key point to note is that CSR is an evolving concept that currently does not have a universally accepted definition. Generally, CSR is understood to be the way firms integrate social, environmental and economic concerns into their values, culture, decision making, strategy and operations in a transparent and accountable manner and thereby establish better practices within the firm, create wealth and improve society. As issues of sustainable

development become more important, the question of how the business sector addresses them is also becoming an element of CSR. The World Business Council for Sustainable Development has described CSR as the business contribution to sustainable economic development. Building on a base of compliance with legislation and regulations, CSR typically includes “beyond law” commitments and activities pertaining to:

- corporate governance and ethics;
- health and safety;
- environmental stewardship;
- human rights;
- sustainable development;
- working conditions;
- industrial relations;
- respect for diverse cultures and disadvantaged peoples;
- corporate philanthropy and employee volunteering;
- customer satisfaction and adherence to principles of fair competition;
- anti-bribery and anti-corruption measures;
- accountability, transparency and performance reporting; and
- supplier relations, for both domestic and international supply chains.

CSR is understood to be the way firms integrate social, environmental and economic concerns into their values, culture, decision-making, strategy and operations in a transparent and accountable manner, and thereby establish better practices within the firm, create wealth and improve society (**Zadek, 2001**). These elements of CSR are frequently interconnected and interdependent, and apply to firms wherever they operate in the world. It is also important to bear in mind that there are two separate drivers for CSR. One relates to public policy. Because the impacts of the business sector are so large, and with a potential to be either positive or negative, it is natural that governments and wider society take a close interest in what business does. This means that the expectations on businesses are rising; governments will be looking for ways to increase the positive contribution of business. The second driver is the business driver. Here, CSR considerations can be seen as both costs and benefits. Since businesses play a pivotal role both in job and wealth creation in society and in the efficient use of natural capital, CSR is a central management concern. It positions companies to both proactively manage risks and take advantage of opportunities, especially with respect to their corporate reputation and the broad engagement of stakeholders. The latter can include shareholders, employees, customers, communities, suppliers, governments, non-governmental organisations, international organisations and others affected by a company’s activities (**Conaway and Wardrope, 2010**). Above all, CSR is about sensitivity to context—both societal and environmental—and related performance (**Matten and Moon, 2008**). It is about moving beyond declared intentions to effective and observable actions and measurable societal impacts. Performance reporting is all part of transparent, accountable and, hence, credible—corporate behaviour. There is considerable potential for problems if stakeholders perceive that a firm is engaging in a public relations

exercise and cannot demonstrate concrete actions that lead to real social and environmental benefits (Entman, 1993; Hallahan, 1999; Kendall, 2005 and Schlechtweg, 1996). The present study assesses corporate social responsibility of small manufacturing firms operating in District Udhampur of J&K State.

3. RESEARCH HYPOTHESES

Based on extensive review of literature the following hypotheses had been framed for the present study:

Hyp 1: There exists positive association between corporate social responsibility and societal safeguard.

Hyp 2: Corporate social responsibility promotes ethical considerations of small scale manufacturers.

Hyp 3: Adoption of corporate social responsibility leads to effective relationships

Objective: To analyse the impact of corporate social responsibility on societal safeguard, ethical considerations and relationship building

4. RESEARCH DESIGN AND METHODOLOGY

Research design and methodology comprises area of research, nature of data/information (Primary or secondary), questionnaire/schedule, research tools applied etc. The research methodology adopted proceeds as follows:

4.1 SAMPLING AND DATA COLLECTION

The primary data for the study were collected from 44 functional manufacturing SSIs registered under District Industries Centre (DIC), Udhampur of J&K State sub-divided into ten lines of operation comprising cement (8), pesticide (3), steel (3), battery/lead/alloy (5), menthol (2), guns (2), conduit pipes (2), gates/grills/varnish (5), maize/atta/dal mills (3) and miscellaneous (11). Census method was used to elicit response from owners/managers of the SSIs. Information was collected by administering self developed questionnaire prepared after consulting experts and review of literature which comprised of general information and various statements (11) of corporate social; responsibility being performed by the above aforesaid units. Items in the questionnaire were in descriptive form, ranking, dichotomous, open ended and five-point Likert scale. The data collected was further analysed with the help of SPSS (Version 16.00) for purification, checking validity and reliability. Various statistical tools like Mean, Standard deviation, Regression analysis, ANOVA were used to elicit meaningful responses from the data.

4.2 THE SURVEY INSTRUMENT

The survey instrument for managers was sub-divided into general information and information about dimensions of corporate social responsibility based on ranking and ordinal scale (5<---->1) ranging from 'strongly disagree' (1) to 'strongly agree' (5). The primary data were collected by making four to five visits for getting response from managers. The secondary information was collected from various journals namely, Journal of corporate social responsibility, International journal of supply chain management, Journal of supply chain management, International journal of production & distribution management, International journal of logistics management and

from other sources like books, magazines, empirical papers from online journals & hard copies of journals, annual action plan and other documents published and unpublished.

4.3 RELIABILITY AND VALIDITY OF THE INSTRUMENT

Reliability: The Cronbach's reliability coefficients for all 11 scale items underlying three factors within the domain of corporate social responsibility ranges from 0.864 to 0.897. The alpha reliability coefficients for F₁ (0.897), F₂ (0.886) and F₃ (0.864) is higher than the criteria of 0.77 obtained by **Gordon and Narayanan (1984)** indicating high internal consistency. The figures were also at a minimum acceptable level of 0.50 as recommended by **Brown et al. (2001)** and **Kakati and Dhar (2002)** thereby obtaining satisfactory internal consistency. Adequacy and reliability of sample size to yield distinct and reliable factors is further demonstrated through Kaiser-Meyer-Olkin Measure of Sampling Adequacy that is 0.700 and all factor loadings between items and their respective constructs being greater than equal to 0.55.

Validity: The factors obtained alpha reliability higher & equal to 0.50 and KMO value at 0.700 which indicate significant construct validity of the construct (**Hair et al., 1995**).

4.4 DATA ANALYSIS AND INTERPRETATION

The suitability of raw data for factor analysis obtained from SSI managers was examined through KMO value (0.700), Bartlett's test 348.39 (p-value = 0.000), indicating sufficient common variance and correlation matrix (**Dess et al. 1997 and Field 2000**). Thereafter, it was properly edited, purified and reduced through factor analysis on SPSS. The process of R-Mode Principal Components Analysis (PSA) with Varimax Rotation did not had any effect on the factor as the number of statements (11) remained same i.e., no item was either deleted or omitted. Therefore, factor loadings in the final factorial design, were consistent with conservative criteria, thereby resulting into three-factor solution using Kaiser criteria (i.e. eigen value ≥ 1) with 68.33% of the total variance explained. The communalities and % of variance explained by each factor are displayed in the Table 1.1. The details of factors and items therein are as under:

Factor 1 (Societal safeguard): This factor comprised of five items namely, "Control over environmental factors", "Timely & adequate delivery of goods", "Due significance to societal safeguards", "Operations are within rules" and "Proper prices charged". All the items were having mean scores between 4.11 - 4.31 and the statement "Control over environmental factors" was rated high among all with factor loading 0.900 and communality 0.867. This implies that Corporate Social Responsibility brings control over environmental factors, leads to timely performance of firms services, societal safeguards are considered valuable, the firms operations are within rules and reasonable prices for the product are charged.

Factor 2 (Ethical considerations): The variables, "Respective & timely tax payments", "Employees satisfaction" and "True promotional aids" were taken into consideration by this factor which supports all the variables with magnificent mean values, high factor loadings and significant communalities. Small manufacturing firms do pays timely taxes and uses true promotional aids for promoting their products.

Factor 3 (Builds relationship): The final factor of corporate social responsibility envisages three statements "Enhances interlinkages & reputation", "Maximises customer services & satisfaction"

and “Promotes reliability” with significant values of factor loading (0.69 – 0.92), communalities (0.78 – 0.89) and mean scores (4.11 – 4.20). This signifies that manufacturers of small firms want to promote interlinkages and customer service.

Table 1.2 shows output from Chi-square test and reveals positive association of 4 statements and insignificant association of 1 statement of societal safeguard with corporate social responsibility. The statement “Operations are within rules” is highly significant among all, with significance value of .023 ($p < 0.05$). The statements “Control over environmental factors”, “Timely & adequate delivery of goods” and “Due significance to societal safeguards” exhibits significant association as the $p < 0.05$. One statement i.e. “Proper prices charged” was found to be insignificant. Overall, the hypothesis is accepted for 4 statements and rejected for 1 statement.

Table 1.3 shows output from regression analysis to elicit the impact of corporate social responsibility on ethical considerations. The result of linear regression analysis enticed that the correlation between predictor and outcome is positive with values of R as .708, which signifies good correlation between predictor and the outcome. In the model 1, R is .708 which indicates 70% association between dependent and independent variable. R-Square for this model is .636 which means that 63% of variation in corporate social responsibility can be explained from the independent variable. Adjusted R square (.594) indicates that if anytime another independent variable is added to model, the R-square will increase. Further beta value reveals significant relationship of independent variable with dependent variable. Change in R square is also found to be significant with F-values significant at 5% confidence level. Thus, the hypothesis “Corporate social responsibility promotes ethical considerations of small-scale manufacturers” is accepted as represented by its significance level $p < .05$.

Table 1.4 demonstrates output from regression analysis to elicit the impact of corporate social responsibility relationship building. The result of linear regression analysis enticed that the correlation between predictor and outcome is positive with values of R as .810, which signifies good correlation between predictor and the outcome. In the model 1, R is .810 which indicates 81% association between dependent and independent variable. R-Square for this model is .692 which means that 69% of variation in social responsibility can be explained from the independent variable. Adjusted R square (.665) indicates that if anytime another independent variable is added to model, the R-square will increase. Further beta value reveals significant relationship of independent variable with dependent variable. Change in R square is also found to be significant with F-values significant at 5% confidence level. Thus the hypothesis “Adoption of corporate social responsibility leads to effective relationships” is accepted as represented by its significance level $p < .05$.

5. CONCLUSION & MANAGERIAL IMPLICATIONS

Corporate social responsibility indulges firms to integrate social, environmental and economic concerns into their values, culture, decision making, strategy and operations in a transparent and accountable manner in order to create wealth and improve society well being. It leads to societal sustainable development, customer satisfaction and adherence to principles of fair competition, anti-bribery and anti-corruption measures, accountability, transparency and performance reporting etc. The present research provides fresh insights into the existing literature by

commenting upon the performance of small manufacturing firms operating in District Udhampur. The results of the study revealed that incorporating social responsibility leads to control over environmental factors, timely & adequate delivery of goods and above all promotes societal safeguards. Further, it has been analysed that inculcating the habit of corporate social responsibility fosters and reflects the ethical considerations of small-scale manufacturers and adopting CSR escorts to effective and sustaining relationships with upstream and downstream partners. From the practical perspective, the managers with the help of government functionaries must take initiatives to organize trade shows, seminars, workshops, conference to strengthen corporate social responsibility by integrating fragmented chain intermediaries. Sensitizing managers through periodic training & education programmes the need & strategies for how to impart satisfactory and publicly social responsibility for profitable inter-firm relationships. The findings of the study is limited to small scale industries of district Udhampur of Jammu & Kashmir state, so results drawn cannot be generalized for medium or large scale industries functioning in other parts of country having dissimilar business environment. Future researches can be undertaken in analysing CSR from the perspective of wholesalers, retailers and customers in medium and large scale product and service industries.

Table-1.1: Results Showing Factor Loadings and Variance Explained After Scale Purification (Rotated Component Method) for Corporate Social Responsibility

Factor-wise Dimensions	Mean	S.D	F.L	Eigen Value	Variance Exp. %	Cumulative Variance %	Comm- unality	α
F1 Societal safeguard	4.24	.489		5.040	24.977	24.977		.8971
1. Control over environmental factors	4.27	.544	.900				.867	
2. Timely & adequate delivery of goods	4.31	.518	.793				.663	
3. Due significance to societal safeguards	4.27	.423	.779				.686	
4. Operations are within rules	4.22	.423	.618				.751	
5. Proper prices charged	4.11	.537	.589				.533	
F2 Ethical considerations	4.06	.405		1.965	21.614	46.591		.8862
1. Respective & timely tax payments	4.04	.428	.919				.932	
2. Employees satisfaction	4.06	.452	.844				.845	
3. True promotional aids	4.06	.333	.805				.836	
F3 Builds relationship	4.17	.400		1.513	21.542	68.133		.8645
1. Enhances interlinkages & reputation	4.20	.408	.925				.895	
2. Maximises customer services & satisfaction	4.20	.408	.910				.880	
3. Promotes reliability	4.11	.386	.694				.798	

Footnotes: KMO Value =.700; Bartlett's Test of Sphercity = 348.391, df = 66, Sig. =.000; Extraction Method Principal Component Analysis; Varimax with Kaiser Normalisation; Rotation converged in 5 iterations; 'FL' stands for Factor Loadings, 'S.D' for Standard Deviation and ' α ' for Alpha.

Table-1.2: Association Between Corporate Social Responsibility and Societal Safeguard

Statement	Chi Square value	Sig. value	Outcome
Control over environmental factors	17.943	.048	Significant
Timely & adequate delivery of goods	18.765	.047	Significant
Due significance to societal safeguards	21.984	.041	Significant
Operations are within rules	44.000	.023	Significant
Proper prices charged	.024	.877	Not significant

Table-1.3: Regression Model Summary

Model	R	R ²	AdjustedR ²	Std. Error of Estimate	F value ANOVA	Sig. level	β	t	Sig. level
1.	.708	.636	.594	.2083	27.343	.000	.286	2.184	.004

a. Predictors: (Constant), Ethical considerations

b. Dependent Variable: Corporate social responsibility

Table-1.4: Regression Model Summary

Model	R	R ²	AdjustedR ²	Std. Error of Estimate	F value ANOVA	Sig. level	β	t	Sig. level
1.	.810	.692	.665	.2184	28.981	.000	.198	2.303	.012

a. Predictors: (Constant), Builds relationship

b. Dependent Variable: Corporate social responsibility

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