
Corporate Social Performance of Indian Multinational Manufacturing companies

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The paper aims to assess the corporate social performance of Indian multi-national manufacturing companies using a process based approach. Social performance of 53 Indian MNC's has been assessed on the two parameters, namely, strategic governance and stakeholders' responsibility for customers, employees, investors, suppliers and communities. Questionnaire based data was collected from the CSR heads as well as the employees. Results indicate that Indian multinational manufacturing companies perform above average in their social performance in strategic governance as well as combined stakeholders' responsibility while their performance in fulfilling their responsibility towards their employees and the suppliers was found to be unsatisfactory. The findings further indicated that strategic governance of CSR in the companies is not accompanied by stakeholders' responsibility. Also, the social performance of Indian multinational manufacturing companies communicated by the heads was not found to be at par with that of employees.

Keywords: Corporate Social Responsibility, Corporate Social Performance, Stakeholder, Strategic Governance

INTRODUCTION

The idea of corporate social responsibility (CSR) has been debated for several decades. The concept has evolved from corporate philanthropy to corporate social responsibility to corporate social responsiveness to corporate social performance. When a firm has understood its social responsibilities in addition to the financial responsibility, the next step is to evaluate its social activities and identify its lacunas and unfilled gaps, just like a firm measures its financial performance. The study of corporate social performance (CSP) is important so that there exists no gap between the social goals and business actions. Measuring the business case for CSR can help companies in the selection and management of CSR activities (Drews, 2010).

CORPORATE SOCIAL PERFORMANCE

Corporate social performance has been called by different terms like social accounting, social reporting, social auditing, social and environmental reporting or accounting, evaluation of CSR and so on. Carroll (1979) gave a model of CSP for managers to understand the social issues and take wise decisions to fulfill their social responsibilities. She gave a three dimensional model which was an integration of principles of social responsibility, issues of social management and modes of social responsiveness. The most widely used definition of CSP is given by Woods (1991) is an organization's configuration of principles of social responsibility,

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process of social responsiveness and policies, programs and observable outcomes as they relate to the firm's societal relationships.

There has been a lot of research to establish or to understand a statistical relationship between CSP and financial performance (FP). Rowley and Berman (2000) commented on CSP - FP research that learning whether CSP is positively or negatively related to FP does not help us understand how firms should behave and/or what antecedent conditions influence CSP, while, according to Carroll (2000), establishing the bottom line impacts of CSP initiatives can strengthen the field of CSP.

But before one moves to understand the impact of CSP on financial performance, there exist imminent questions on how to measure corporate social performance. Husted (2000) quoted Preston (1991 a) that there are two kinds of approaches to evaluate corporate social performance, i.e. by focusing on outcomes and by focusing on process (ibid).

Some of the methods of evaluating corporate social performance used in previous researches are discussed. Expert evaluation of the corporate policies of the firm (Abbott and Monsen, 1979) and content analysis of the annual reports and other corporate documents (Cochran and Wood, 1984) have been used very frequently but have been criticized as they only reveal the company side of the story. Ullmann (1985) said that social disclosures cannot be substituted for social performance without prior empirical verification irrespective of the quality and quantity of the disclosure being made. Then researchers have used proxy measures like controlling pollution (Mcquire et al., 1988) but attention to one stakeholder group or issue neglects other group/ dimensions and cannot independently serve as a proxy for CSP (Rowley and Berman, 2000). Carroll (2000) further clarified that CSP should be perceived as a comprehensive assessment of a firm's social performance and not isolated on the firm's performance with respect to one social issue or one stakeholder. Thirdly, CSR ratings given by various reputational indexes given by the external agencies

like Innovest, KLD, ARESE, LBG, JRA, Fortune Social Responsibility Index and others have been condemned for their subjectivity.

In India, only one social rating agency 'Karmayog' is in existence which gives annual ratings to all companies. The rating is assigned on the basis of the CSR initiatives of the company including a comparison with previous years' CSR initiatives (www.karmayog.com). The procedure followed by the Karmayog focuses only on community initiatives of the company and the ratings are available only till the year 2010.

Thus, we measure corporate social performance of the Indian multi-national manufacturing companies focusing on the process approach. We have identified two parameters of corporate social performance, namely, strategic governance and stakeholders' responsibility.

Strategic Governance

First factor is strategic governance which throws light on how company integrates CSR into the strategy of the company (Innovest's Intangible Value Assessment). It includes indicators like sustainability reporting, governance board and culture of the organization. The indicators of strategic governance can prove to be real strengths of the company as the importance of this dimension is seen from the quantity of discussion about the board of directors and CSP (Dunn and Sainty, 2009), shareholders' activism and firm's performance (Guay et. al., 2004), corporate governance and CSP (Johnson and Greening, 1999) etc. CSP acts as a signal to external parties about the quality of management of the company (Dunn and Sainty, 2009). Firms who understand their social responsibilities appropriately and explore ways of integrating CSR into strategy are more likely to reap the rewards of competitive advantage (Galbreath, 2009). Further, Galbreath (2010) studied the firm's strategic orientation by understanding internal dynamics of a firm which is important to engage in CSR.

Strategic governance of CSR in a company can be gauged through whether there is a CSR or a sustainability representative on the company's board of directors, whether there is a separate CSR office in the company or if it is being taken under the human resources and corporate communication or public relation department and other similar indicators. If the governance related fundamentals are in place, the benefits for the organization can be huge. A small example is integration of CSR activities in the value chain activities or procurement that helps in pushing the cost down (Bhattacharya et al., 2008).

Stakeholder Responsibility

The stakeholder responsibility talks about the companies' behavior towards its stakeholders. Clarkson (1995) proposed that corporate social performance can be effectively analyzed and evaluated using the stakeholder approach. To understand CSP, it is important for the researchers to analyze the position of stakeholders within the company management and processes and performance of the company (Luoma and Goodstein, 1999).

Stakeholders have influenced the firms' image and their actions due to various reasons (Gao and Zhang, 2006, O'Riordan and Fairbrass, 2008, Davenport, 2000). Stakeholders are the source of expectations about what constitutes desirable and undesirable firm performance (Wood and Jones, 1995). Stakeholders like environment, customers, and communities have been studied separately earlier and also together. According to Carroll (1991), there are five main stakeholders- owners (shareholders), employees, customers, local communities and society at large. Berman et al. (1999) has considered five groups as key stakeholder, namely, employees, environment, diversity, customer / product safety and community, while Davenport (2000) considered community, customer/ consumer, employee, investor, supplier as the main stakeholders for his dissertation work.

The current study considers the human resources of the company, customers, communities, investors and suppliers as the five stakeholders as these have been identified as primary by most researchers.

HYPOTHESIS

Corporate social responsibility by Indian Companies

Social responsibility is not something new in India (Arora and Puranik, 2004), even small and medium enterprises in India are undertaking CSR (Vancheswaran and Gautam, 2010). A study undertaken by ASSOCHAM in 2009 highlighted that Indian companies are contributing in full swing as a part of CSR with maximum focus on community welfare, education, environment and healthcare. Key achievement of Indian companies with respect to CSR activities is indicated by the fact that four Indian companies are a part of the Forbes Asia's list of 48 Heroes of Philanthropy' in 2010 (ASSOCHAM, 2009). Another ASSOCHAM- KPMG report states that Indian companies are realizing that their reputation is linked with how well they consider the effects of their activities on those with whom they interact.

The nature of CSR in India is evolving from philanthropic CSR to a more serious result oriented CSR. Sagar (2004) discussed a survey which revealed that the Indian corporate are moving from philanthropic CSR towards CSR integrated with the business vision and processes. The seriousness in CSR is implicit from studies like that of Sharma and Tyagi (2010) who found that international organizations like Global Compact are well accepted by the Indian corporate, however, some companies lack in standardized reporting. Balasubramaniam et al. (2005) studied the reasons for the changing nature of CSR and found that political setup, extreme poverty conditions, religious settings leading to business benevolence are some of the leading factors.

Looking at the long history of CSR in India and the

fact that Indian companies are expected to have maturity in their social responsibilities as they are operating at a global level and have to exhibit responsible behaviour which should flow in the companies' nerves and not artificial in nature, hence our first hypothesis is:

H1: Indian manufacturing companies have high CSP scores.

Strategic Governance and Stakeholders Responsibility

Van de Ven and Jeurissen (2005) supported that as a firm integrates CSR into its corporate strategic plan and action, the better it will be able to satisfy the demands of its stakeholders. Bhattacharya et. al (2008) highlighted that identification of stakeholders and fulfilling their demands is an integral step of strategizing of CSR by the company. Their paper also clearly implied that strategic CSR revolves around the firm's stakeholders and their interests. Galbreath (2009) stated that while undertaking corporate responsibilities by considering unmet social needs and social issues, synergies develop that are important for several dimensions of strategy.

Arevelo and Arvind (2011) studied Indian firms listed with United Nations Global Compact and concluded that the firms are now moving towards the stakeholder model of CSR rather than giving importance only to the owners and shareholders and focusing only on the profit maximizing function.

Previous researchers have made it apparent that a company needs to have systems in place to address the increasing emphasis on stakeholders' interests and needs and therefore, our second hypothesis is:

H2: Companies which have high strategic governance score also have high stakeholder responsibility score.

Corporate Social Performance and Employees

Turban and Greening (1997) talk about the signaling

theory according to which an organization's social programmes and policies may attract employees by serving as a signal of the type of working conditions and employee related policies in the company. While managers associate with internal functions of the company focus more on efficiency and processes in the company, managers responsible for output oriented jobs like that of sales and marketing tend to be more concerned about the perception of the company by its stakeholders and the social issues that can affect that (Thomas and Simerly, 1995). Thus, the employees of any organization also have some aspirations and concerns about social policies and programmes of the company. Therefore, it is important that the employees also feel positively about their company's social responsibilities as they are the brand ambassadors and if unsatisfied, they may carry that impression outside which can harm the company's reputation.

If a company has appropriate processes in place, then not only it will be communicated through its top management but the employees will also reflect that. Hence, we propose that:

H3: There is no difference in the CSP as communicated by the heads and by the employees of the companies.

METHODOLOGY

The study has been conducted on a sample of top 50 Indian manufacturing multinational companies, according to the turnover, taken from the CMIE Prowess database of companies.

The manufacturing sector has been chosen due to its great role in the export led growth and maximum manufacturing sector companies have their operations across the globe. The controversies surrounding the process of globalization have raised concerns that multinational companies (MNCs) might be pursuing profit at the expense of vulnerable workforces, the environment and so on (Edwards et. al. 2007). As businesses rapidly transcend national borders and bring about added

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complexity, multinational corporations are being increasingly held accountable for greater transparency and social responsibility (Tan, 2009).

A questionnaire was framed on the basis of the two indicators of corporate social performance.

Indicators for strategic governance include written policy on CSR, separate CSR department, CSR related disclosures, awards for CSR won, independent and dependent mix of board of directors etc.

Indicators related to social responsibility towards the above stakeholders identified are customers' health and safety through production of safe products, commitment to product quality, employment of minority groups, provision of training to the employees, monitoring of employee satisfaction level, employee safety, implementation of community support programmes, performance measurement of these programmes, holding stakeholder engagement activities, support to non-profit organizations, investor grievance handling policies and dividend payment policy.

The questionnaire was pilot tested and administered to the CSR/ sustainability heads and employees of the manufacturing multinational companies over a sample of 45 respondents. The pilot testing allowed some indicators to be dropped. The final questionnaire was again administered to get the responses from the CSR/ sustainability heads and in their absence, HR head or the corporate communications head whoever was responsible for the CSR function in the company.

Clarkson in 1995 proposed that in order to evaluate corporate social performance comprehensively, its representative groups of each of the primary stakeholders can be interviewed to understand the level of their satisfaction with the company. Therefore, we limited the scope of our research and gathered the feedback of the employees, one of the most important stakeholders of any company. The questionnaire was filled by ten to fifteen middle

level managers of the companies which comprised of two or three randomly selected from four different departments of the head office of the companies.

To check the robustness of the questionnaire, inter scale reliability was checked and also for all the indicators. Table giving the cronbac alpha scores of the scale is given below:

Table 1: Cronbac apha scores of CSP scale		
S No	CSP indicator	Score
1	Strategic Governance	0.653
2	Customers	0.742
3	Human Resources	0.782
4	Communities	0.744
5	Suppliers	0.661
6	Investors	0.692
7	Of the total scale	0.754

As the questionnaire contained questions with the options of yes or a no to allow high response rate, corporate social performance score for the companies was arrived at by summing the scores (communicated by the head) under each parameter to indicate a parameter wise performance and summation of all parameters to give a total social performance score of the company. The scores for negative questions like if the company has faced union related or tax related issues were appropriately deducted. Similarly, composite score for the individual employees were calculated and then an average was taken to represent one employee score for each company.

RESULTS

To cater to the first objective, composite scores of corporate social performance have been calculated on the two variables after a questionnaire based survey of CSR heads of the manufacturing multinational companies. Descriptive statistics of the scores obtained for strategic governance and for all the stakeholders' responsibility are given in the table below.

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Table 2: Descriptive statistics of Disaggregated and Aggregated CSP								
Statistic	SG	C	E	Co	S	I	SR	CSP
Number of indicators	13	7	27	9	6	5	54	67
Number of negative indicators	0	0	2	2	0	0	-	-
Average	7.8	5.2	14.4	5.1	5.6	3.7	35.9	41.8
Std Dev	2.4	0.9	4.3	1.9	0.8	1.0	5.6	7.8
Max	12	7	24	9	6	5	50	62
Min	4	3	8	2	3	2	23	27

Indian multinational manufacturing companies perform above average in the two parameters. While the companies score an average of about 60% in the strategic governance parameter, they perform slightly better in the stakeholder dimension parameter with an average score of 66%. Two stakeholders where the score is low are the employees (53%) and the communities (56%).

Most companies have both executive and non executive directors on their board, most have a separate CSR office etc. but results showed that majority of companies still do not have a board of director dedicated to its CSR or sustainability function. While most companies have strict governance for taking care of bribery or unethical advertising, many companies do not have a written policy or a document mentioning the same.

The companies were found to be responsible towards their stakeholders while maximum disturbance was found to be in the management of human resources of the company.

The companies were found to be performing the highest in their responsibility towards the investors followed by their customers with consistency where the standard deviation was found to be the minimum. This finding supports the old theory that companies take care of their investors as well as their customers in the best means and ways they can.

All manufacturing companies are taking care of the communities around their operations but variations have been found. We support Mishra and Suar

(2010) who found that Indian managers still understand CSR as only community development. Only a few organizations are undertaking exceptional work in this area by integrating their community initiatives to their business, thus creating shared values.

The companies were graded high, medium and low in their performance in strategic governance and stakeholders' responsibility on the basis of their scores. In SG, score of 10 and above was considered high, score between 5 and 9 was taken as medium and low grade was given to scores of less than 5. Similarly, in SR, score of 39 and above was considered as high and score from 20 to 38, was given medium and below 20 was graded as low. Table 3 is the matrix prepared on the basis of these grades.

Table 3: Strategic Governance and Stakeholders Responsibility Matrix		
SR \ SG	H	M
H	6	6
M	3	28
L	0	10

In the above matrix, we see that there are six companies which have high performance in strategic governance as well as the stakeholders' responsibility parameters. As Pederson and Rendtorff (2010) put it, 'CSR is an instrument that is supposed to make corporations more aware of their responsiveness to society in a sense that it can also be

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viewed as an instrument that improve competitive abilities'. Seeking CSR strategically affects the whole ideology of CSR in a company and directs the process of CSR which is more streamlined and integrated with the company's mission statements.

However, there are six companies which have high score in strategic governance dimension but do not showcase the same performance in stakeholder dimension. Since, identification of stakeholder needs and fulfilling those needs with the help of stakeholder engagement is an integral part of strategic CSR. It can be further probed that why companies which have strategically governed their CSR agenda and activities do not perform good towards the stakeholders.

There are three exceptional companies which have only medium level of performance in strategic governance but have high scores in stakeholder responsibility. These companies realize their responsibility towards their key stakeholders while they do not have governance structures in form of separate CSR office or a CSR policy. This kind of system might not be sustainable as change in

internal or external environment will cause these activities to be affected first before anything else.

Fortunately, there are no companies which have low strategic governance performance but high stakeholder responsibility performance. As poor strategic governance of CSR implies that the mechanisms driving CSR in the company are very weak or almost absent and therefore, in their absence, a company can neither be responsible towards its various stakeholders.

Though we get some indication for our second hypothesis from the matrix, t test for independent sample, assuming equal variances is applied to show whether the companies which are strong in strategic governance also perform well on stakeholder's responsibility dimension. As shown in the above below, we found that there a significant difference in the means of the two populations as the p value (0.000) is less than 0.05.

In Indian multinational manufacturing companies, though the companies score average in their overall CSP scores but CSR is not strategically aligned with the stakeholders' responsibility.

Table 4: Independent sample t test for SG and SR

	Strategic Governance	Stakeholder Responsibility
Mean	7.81	33.9
Variance	5.9	34.3
Observations	53	53
Df	104	
P value (Two tailed, assumed equal variance)	0.000	

Table 5: Independent sample t test for CSP- Heads and CSP- employees

	CSP – Heads	CSP – Employees
Mean	41.8	30.4
Variance	61	67.4
Observations	53	53
Df	104	
P value (two tailed, assumed equal variance)	0.000	

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To test the third hypothesis that whether CSP as communicated by the CSR heads as well as the managerial level employees of the companies is same, we applied t test for independent samples and found that the two means differ significantly. We reject the third hypothesis that CSP scores taken from heads are similar to CSP communicated by the employees as $p \text{ value} < 0.05$.

There are two possibilities, either the CSP pictures as told by the CSR heads are exaggerated as the employees' perception are different or the employees are not well informed about the company's practices. There are more chances that the CSP figures are overstated as the employees selected for response were from different departments and were sitting in the head offices of the company, therefore odds are low that the employees are not informed.

DISCUSSION

Jones (1995) conveyed the message that corporate social performance is about establishing trust and cooperative relationship between the firm and the stakeholders. If the company strategically governs its CSR activities with the help of tools like entertaining shareholder activism, CSR representation on the board of the company etc. it is in fact winning the trust of the shareholders and of the stakeholders. Mittal et al. (2008) also concluded that the management of the companies needs to devise ways for integrating CSR in their operations. Integrating CSR with the business operations is achieved through undertaking responsible steps to foster relationship with the internal stakeholders of the company as well as building capacities of the suppliers of the company.

It is very important for the multinational companies to take up CSR with heart and soul. Being global players, it is essential that they take up international best practices so as to remain competitive. Krueger (2008) highlighted that international firms have

begun to focus on their corporate culture, with the creation of codes of conduct and a tightening of labour practices etc. Tan (2009) established that multinational companies adopt double standards in their operations and do not uphold good practices in transitional economies. We further supplement that double standards can be avoided if these companies have strong systems and processes in their host countries at the first place.

Cruz and Boehe (2010) quoted Rodriguez et al. (2006) that the CSR literature fails to address the question how CSR should be strategically managed in MNC's (ibid). Mohan (2006) revealed that there is a significant role of the head quarters in global management of CSR, particularly in establishing CSR philosophy and the corporate level philosophy across all operations. CSR practices varied for different stakeholders and also for local operations and other global operations.

As a part of strategizing CSR, the companies are suggested to include a written policy on all the aspects as it grants a more disciplined and an impartial approach to tackle the issues. The new guidelines for CSR issued by the Indian Government talk about establishing a director level committee for CSR, hence, the driving force for CSR will be the from the management and chairpersons.

The companies need to have more female participation in their workforce, give equal opportunities to differently-abled people and monitor the satisfaction level of its employees in order to improve their social responsibilities towards their internal customers. Researches earlier have shown the significance of human resources for a company as they are the brand ambassadors of the companies.

As far as community development related activities are concerned, companies which have laid a separate foundation to carry out this work are doing good work as the foundations handle the communities with great expertise. These foundations seek

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community approval before starting a new project; involve them in decision making regarding what kind of intervention is needed in the communities. To establish a superior impact of these community based initiatives, the companies need to work in tandem not only with government or non-profit organizations, they also need to work in alliance with each other.

With growing awareness and increasing attention of the importer countries about responsible and ethical sourcing, the multi-national companies need to have more policies and procedures in place to check the quality of sourcing from their suppliers. The companies should undertake training programmes for the suppliers to upgrade their processes and encourage the suppliers to undertake disclosure on their practices.

We further uphold that if a company is keeping its stakeholders satisfied, it will be communicated through them also. Our results also showed that performance of the companies which are seriously indulging in socially responsibility activities was high which was reflected in the CSP scores of their employees also. Or catering to the other possibility of uninformed employees, the companies should work on the communication aspect with internal as well as external stakeholders and keep them updated.

CONCLUSION

The paper assesses the social performance of Indian multinational manufacturing companies on strategic governance and responsibility towards primary stakeholder's parameters. Indian manufacturing companies have been found to be performing just about average while more effort is required to strategically govern the CSR activities and to be responsible towards the human resources and suppliers of the companies. The results also pointed out that strategic governance and stakeholders' responsibility are not aligned and also the social performance differs in the perception of the top management and the employees.

To generalize the results, sample size can be expanded and the tool can be tested in other types of industries. Further research can be undertaken to find out the factors that are responsible for the companies' performance in strategic governance and stakeholders' responsibility.

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