The Latent Components of CSR: Empirical Investigations by Application of Confirmatory Factor Analysis

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Abstract: Corporate Social Responsibility (CSR) has become so much an important issue in business of today that it has led to its investigations in relation to many aspects including brand trust. But the limited amount of research on CSR to date is not able to even clearly define its components. It is because CSR being a management function, most of the researches are descriptive and not conclusive in nature. The present study is an attempt to provide concrete evidences through empirical investigations on components of CSR by application of confirmatory factor analysis. The data here has been collected through face to face interviews with employees of two major FMCG companies performing CSR activities regularly in India. As per the findings of this study, the employees place different degrees of priorities to the variables associated with CSR which can be divided into five major categories based on the factors described by the analysis as; local community, environment, customers, employees and society.

Keywords: Corporate Social Responsibility, CSR, Chronbach's Alpha, Factor Analysis, Principal Component Analysis, VariMax Rotations

1. INTRODUCTION

In recent years, the attitude and expectations of stakeholders on a company with reference to Corporate Social Responsibility (CSR) has changed dramatically and it is much due to the increased public accessibility of a media focused on ethical behaviour so maintained by corporations (Dawkins and Lewis, 2003). This increased concern has engulfed the opinions of all elite stakeholder audiences including customers,

employees, investors and obviously legislators. Therefore, companies failing to meet their obligations vis-a-vis CSR are definitely going to be reminded by the stakeholders and have to compromise basis their corporate reputations. The company however can avoid this by consistently conducting varied types of CSR programmes for its stakeholder audiences and then communicating its initiatives effectively to them. CSR initiatives have the ability to contribute the marketing discipline and increase support of stakeholders towards the organization (Maignan and Ferrell, 2004). In this sense, employees are in a unique position since they are a part of stakeholder group as well as in charge of coordination between organization and other stakeholders. Hence, it can be assumed that employees of any organization can best depict the first impressions regarding components of CSR. That is why the present study has been undertaken by taking employees of the two chosen organizations in the sample and then implementing confirmatory factor analysis on the survey data withdrawn from them.

2. A THEORETICAL ANALYSIS THROUGH THE REVIEW OF LITERATURE

Though today many people are actively discussing about components of social responsibility for business organizations, few of them actually know that it is much more than economic, technical and legal obligations of corporations (Davis, 1973). Instead social responsibility is something which should not be borne by the firm because of law only and it is one step further to requirements of law. In a nutshell, CSR is a blend between economic gains and social benefits. This view of CSR however has been criticized by a few researchers as a restricted version for a broad concept like social responsibility (Carrol, 1979). But one common thread can be clearly detected among different views which are the distinction between economic and non-economic components of CSR. The economic components of CSR are undertaken by the firm for itself while the non-economic components are taken care of for others. Hence, taking responsibility for making it viable economically to produce a product and making it available to people for consumption is also coming under economic components; though it is the basic function of the business entity. Besides it, a business organization produces its products in the society and for the society to secure economic gains and that is why economic concern of a firm is fundamental to its existence (Daft, 2003). So, economic component is the reason for existence of a firm rather than its social responsibility and CSR must go beyond the merely economic components of business organizations.

CSR is a serious issue not only for the society but also for the business entities themselves and that is why being an important matter, it should be measured. Now, the big question is whether CSR can be measured and if so how. In fact, numerous attempts have been made to assess the degree of social responsibility performed by organizations by academicians and also business communities. But, it is difficult to identify the single best way to measure CSR (Waddock and Graves, 1997). The proven methods to measure CSR includes: reputation indices and scales, forced-choice survey instruments, case study method, behavioural and perceptual measures and content analysis of documents etc. Out of these reputation indices and scales are the most popular for measuring CSR. Some of the notable databases created using this method are: The Canadian Social Investment Database (CSID), The Kinder, Lydenberg, and Domini (KLD) database and Fortune Reputation Index etc. After going through the above noted reputation indices it has been discovered that there are five common components of CSR the scales tried to measure. The components are: Employees, Customers, Society, Environment and Local Community. And reputation indices can be very helpful in preparing new measures for social responsibilities (Abbott and Monsen,

1979). So, after a review of the methodology used by celebrated reputation indices and discovering the common components an attempt to develop a more effective scale in this context became necessary. An important reason for developing a new scale is also that it will maintain an edge over the researches undertaken by application of indicators by researchers like Bragdon and Marlin (1972).

In this connection, Turker (2009) has developed a scale that seems to fully satisfy the requirements of components discovered by the extensive review of extant literature. The questionnaire in his study contains forty two (42) items encompassing all major components of CSR i.e. employees, customers, society, environment and local community. After considering the scales developed by him, an investigation to discover the source has been undertaken in the present study. And finally it got discovered that Turker (2009) scale is largely influenced by previous scales developed by Carrol (1979) and Wood and Jones (1995). Since, the basic objective of determining a scale is to cross verify the idea so generated about the components of CSR in literature review segment of the study, it has been decided to use the forty two item questionnaire in the first phase of primary research and then employing factor analysis for withdrawing empirical evidences. The subsequent sections of this article narrates the results of analyses done on primary data collected from employees of chosen organizations by using the scales developed by Turker (2009). The present study has been undertaken to answer the research question: "Can there be empirical evidences on the traditional components of CSR?".

3. RESEARCH DESIGN

As discussed above, the CSR components adapted from Turker's (2009) scale can best represent all possible latent constituents of CSR and that is why a primary research phase on employees of the chosen organizations has been conducted in this study using this instrument only. The broad objective of the study being to provide empirical evidences on the traditional components of CSR, the specific research objectives have been set as per the following:

1. To identify components of CSR through a brief review of literature.

2. To verify the findings of the brief literature review regarding components of CSR by application of confirmatory factor analysis and explaining the results.

After the research objectives are set, the next job is to design the sample. The first decision that is required to be answered at the time of sample design is the sample size that refers to the number of respondents (who are employees of the chosen organization in this case) to be included in the sample. Since the present study is a conclusive one instead of a descriptive one, a small sample is not acceptable. Secondly, as the number of items included in the questionnaire is equal to 42 (i.e. forty two), the sample size should ideally be equal to or more than five times of it. Thirdly, since the present study has been intended to solve a research problem i.e. verifying the latent components of CSR generated from literature review by application of confirmatory factor analysis; it will be considered as a problem solving research rather than problem identification research. And the usual sample sizes used in problem solving researches of marketing research studies are of minimum 200 (i.e. two hundred) elements (Malhotra and Birks, 2006). Keeping all these points in mind the survey has been conducted to include at least 200 respondents in the sample and at the end 230 successful face to face interviews got achieved. The method of sampling followed at the time of survey was 'quota sampling'. Under the method of quota sampling quotas are fixed on the

basis of predefined proportions in the sample basis control characteristics. Table 3.1 is representing the demographic profile of respondents.

Table 3.1
Demographic Profile of Respondents (n = 230)

Stratification Variables	Category	Frequency	Percentage (%)
Age	Less than 25 Years	32	13.9 %
	26 – 32 Years	74	32.2 %
	33 – 38 Years	72	31.3 %
	39 – 45 Years	24	10.4 %
	46 – 60 Years	28	12.2 %
Educational Qualifications	Graduate General	62	27.0 %
	Post Graduate General	74	32.2 %
	Technical Graduate/Post Graduate	94	40.9 %
Gender	Male	170	73.9 %
	Female	60	26.1 %
Organization	P&G	122	53.0 %
	ITC	108	47.0 %

Source: Primary Data

In Table 3.1, it can be seen that there are four control characteristics chosen in this study: age, educational qualifications, gender and organization. The age of the respondents has been categorized as: less than 25 years, 26 – 32 years, 33 – 38 years, 39 – 45 years and 46 – 60 years. The various types of educational qualifications have been classified in the study as: graduate general, post graduate general and technical graduate/post graduate. There are two types of gender listed i.e. male and female. And as discussed earlier there are two organizations in which the survey has been undertaken: P&G and ITC. Once the sample design is complete, the next task is to define the methods for analysis and in this context there are three types of analysis which are undertaken to satisfy the research objectives:

(a) Reliability Analysis

(b) Descriptive Analysis

(c) Factor Analysis

The test of reliability is generally done through a popular statistical tool 'Cronbach's Alpha' for measuring the degree of consistency among items under consideration. If different variables under consideration are having high degree of correlation, it means that they are measuring the same construct and they are contributing to the overall construct. When reliability is measured by Cronbach's Alpha, by convention a lenient cut off of 0.6 is acceptable in empirical research.

Descriptive statistics analyzed on interval and ratio scale data generally include the measures of location, variability and shape. In the present study, arithmetic mean has been taken as a measure of location because it is a rigidly defined average and most suitable for further statistical treatments like hypothesis testing.

Then range, standard deviation and variance have been computed for studying the variability. Additionally, the skewness and kurtosis which are considered extremely useful to understand the nature of distribution has been calculated. Computation of skewness and kurtosis are a must for assessing normality of data. The descriptive analysis here has been carried out only after proper cleaning of the raw data obtained in the survey.

Previous research has demonstrated that CSR is not a one-dimensional concept but is made up of several "factors" and hence it is considered multi-dimensional even in the present study. For this reason, principal component factor analysis is applied to analyze the variables included in the questionnaire to measure their contribution to CSR. In this case it is called 'confirmatory factor analyses because we are applying the techniques in order to confirm the contributions of different variables to the given constructs. We are not discovering new components of CSR in terms of the constructs, instead we are running factor analysis to cross verify that the variables are actually lying under the respective constructs.

4. RESULTS AND DISCUSSIONS

The first and foremost objective of the present study is to identify components of CSR through a brief review of literature and from the review of extant literature it has been discovered that there are five components of CSR: Employees, Customers, Society, Environment and Local Community. The second objective of the study is to verify the findings of the brief literature review regarding components of CSR by application of confirmatory factor analysis and explaining the results. This objective requires empirical investigations and as discussed the analysis on empirical data has been done in the present study by reliability analysis, descriptive analysis and factor analysis.

In the present study when the data got tested for reliability, it yielded a Cronbach's Alpha score ranging from 0.65 to 0.95 which is much better than the reliability score. The inter-item correlations are also found to be high which means that the items under consideration are measuring the same underlying construct. In Table 4.1 the results of reliability analysis has been shown where it can be seen that the overall reliability of the research instrument in terms of Chronbach's Alpha is equal to 0.952061601 which is much more than the lenient cut off of 0.6. Then the Chronbach's Alpha values for different constructs taken in the questionnaire namely: employees, customers, society, environment and local community carrying

Table 4.1
Reliability Analysis: Chronbach's Alpha (n = 230)

Constructs	No. of Items	Chronbach's Alpha	Inter-item Correlation (Mean)
Employees	10	0.849015545	0.628153243
Customers	8	0.863388042	0.648689606
Society	12	0.831846481	0.59878631
Environment	4	0.852245397	0.630155555
Local Community	8	0.841457995	0.612617012
Grand Total/Overall Reliability & Correlation	42	0.952061601	0.466626821

Source: Primary Data, Compiled from MS Excel Output

10, 8, 12, 4 and 8 items respectively has been taken. It has been found that the constructs under consideration are having reliability scores of 0.849015545, 0.863388042, 0.83184681, 0.852245397 and 0.841457995 respectively which are also more than the generally acceptable cut off of 0.65. It shows overall fitness as well as segment wise fitness of the forty two items questionnaire.

Next to reliability analysis is descriptive analysis. The distribution is said to be normal if it takes a bell shaped curve and thereby the skewness and kurtosis computed out of the data becomes equal to zero (Malhotra, 2005). In an absolutely uni-variate data series, skewness value of more than 3.0 and kurtosis value of more than 10.0 may suggest a problem. Of the 42 items taken in the questionnaire and implemented on 230 respondents for generation of primary data, none have reported skewness of more than 3.0 or kurtosis of more than 10.0. In the prescribed scale from '1' to '5' denoting 'Not Agree At All' to 'Strongly Agree', the means of perception varied in between a range of 2.45 to 4.56 that implies that the perception of respondents is somewhat less than their expectations in a few attributes. It means that the claims of the chosen organization with reference to their CSR activities are even not fully getting approved by their own employees. Then, since the standard deviation is ranging between 0.62 to 1.51, it implies that the scores are tightly packed around their mean values. The skewness is ranging between -2.39 to 1.31 while the kurtosis is ranging between -1.40 to 8.38. It means there are a few items which are generating negatively skewed distributions and also there are another group of items that are generating positively skewed distributions. In other words, the data so generated have unveiled mixed results which is shown in Table 4.2.

Table 4.2
Descriptive Analysis (n = 230)

Construct	Variables	Range	Mean	Std. Dev.	Variance	Skw.	Kurt.
Employees	1	4	3.78	1.509	2.278	-.901	-.774
	2	4	3.56	.941	.885	-1.291	.795
	3	4	3.85	1.327	1.760	-.620	-1.191
	4	4	4.24	1.114	1.242	-1.410	.808
	5	4	2.60	1.143	1.306	.892	-.329
	6	4	3.73	1.034	1.069	-1.171	.870
	7	4	3.93	1.471	2.165	-1.041	-.486
	8	4	4.04	1.395	1.946	-1.120	-.315
	9	4	4.27	1.221	1.490	-1.706	1.795
	10	4	4.14	1.081	1.168	-1.243	.609
Customers	11	4	3.65	1.066	1.136	-1.516	1.572
	12	4	4.50	.746	.557	-2.386	8.375
	13	4	2.62	1.126	1.268	.945	-.350
	14	4	3.80	.940	.883	-1.384	2.114
	15	3	2.82	.766	.587	-.324	-.138
	16	3	4.40	.965	.931	-1.611	1.435
	17	4	2.55	.874	.764	.888	-.161
	18	3	4.29	.716	.513	-.999	1.332

contd. table 4.2

Construct	Variables	Range	Mean	Std. Dev.	Variance	Skw.	Kurt.
Society	19	4	3.56	1.180	1.392	-.885	-.278
	20	4	4.40	1.018	1.036	-2.070	4.051
	21	4	2.99	1.367	1.869	.409	-1.402
	22	4	3.46	1.013	1.027	-.794	-.200
	23	4	3.67	.749	.561	-1.710	2.927
	24	4	4.04	1.144	1.308	-.951	-.261
	25	4	3.49	1.077	1.159	-.867	-.326
	26	4	2.57	.963	.927	.795	-.087
	27	4	3.30	1.250	1.563	-.062	-1.269
	28	4	2.62	.940	.884	.547	-.518
	29	4	3.39	1.172	1.375	-.949	-.394
	30	4	2.65	1.037	1.076	.795	-.394
Environment	31	4	3.66	1.163	1.353	-1.065	.280
	32	4	4.09	1.135	1.289	-1.066	.112
	33	4	2.60	1.085	1.176	.715	-.632
	34	4	3.87	.924	.853	-1.625	3.378
Local Community	35	3	3.51	.914	.836	-.596	-.777
	36	2	2.45	.756	.572	1.310	.035
	37	3	2.53	.850	.722	.766	-.712
	38	4	2.80	1.052	1.107	.713	-.122
	39	3	2.99	1.193	1.424	.639	-1.238
	40	4	4.36	1.034	1.070	-1.580	1.583
	41	4	3.59	1.085	1.178	-1.125	.303
	42	2	4.56	.622	.387	-1.111	.167

Source: Primary Data, Compiled from SPSS Output

Mathematically, factor analysis is somewhat similar to multiple regression analysis, where each variable is expressed as a linear combination of underlying factors. It is an interdependence technique in which an entire set of interdependent relationship is examined. Factor analysis assumes that underlying dimensions or factors can be used to explain complex phenomena. In the present study, the factors influencing CSR has been explored by asking the respondents to evaluate their relative importance on each variables or parameters on a semantic differential scale suggested by Turker (2009). These item evaluations may be analyzed to determine the factors underlying work-life balance. But, before going for the factor analysis it is always advisable to test the appropriateness of the factor model through the available data. Barlett's Test (BT) of Sphericity and Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy are two statistics on the SPSS output, which provides information whether the data set is appropriate for carrying factor analysis or not. Table 4.3 below presents the KMO and BT results of the data. Barlett's test of sphericity can be used to test the null hypothesis that the variables are uncorrelated in the population. In other words, the population correlation matrix is an identity matrix. In an identity matrix, all the diagonal terms are 1, and all off-diagonal terms are 0. The test statistic for sphericity is based on a chi-square transformation of the determinant of the correlation matrix. A large value of the test statistic favours the rejection of the hypothesis.

If the hypothesis cannot be rejected, then the appropriateness of factor analysis should be questioned. As the observed significance level in the present study is found to be 0.000 which is small enough to reject the hypothesis, the null hypothesis that the population correlation matrix is an identity matrix is rejected and we can conclude that the strength of the relationship among variables is strong. Hence, it is a good idea to proceed for factor analysis on the data.

Table 4.3
KMO and Bartlett's Test (n=230)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy:		0.554
Bartlett's Test of Sphericity	Approx. Chi-Square	286.323
	Df	190
	Sig.	0.000

Source: Primary Data, Compiled from SPSS Output

Another useful statistic is the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy. This index compares the magnitudes of the observed correlation coefficients to the magnitudes of the partial correlation coefficients. Small values of the KMO statistic indicate that the correlations between pairs of variables cannot be explained by other variables and the factor analysis may not be appropriate. Generally, a value greater than 0.5 is desirable. The KMO statistic in the present study is also large (>0.5), thus factor analysis would be considered as an appropriate technique for analyzing the correlation matrix.

Once, it is ascertained that factor analysis can be worked out on the present data set, the next step is to actually implement it and explore the factors underlying the work-life balance. The goal of factor analysis is to identify the not-directly-observable or latent factors based on a set of observable or measurable indicators. The process of factor analysis in the following manner: The first step in factor analysis is to produce a correlation matrix for all variables. Variables that do not appear to be related to other variables can be identified from this matrix. The number of factors necessary to represent the data and the method for calculating them must then be determined. Principal components analysis is one method of extracting factors. In principal components analysis, linear combinations of variables are formed. The first principal component is that which accounts for the largest amount of variance in the sample, the second principal component is that which accounts for the next largest amount of variance and is uncorrelated with the first and so on. At this step it is also necessary to ascertain how well the model fits the data. Coefficients (factor loadings), that relate variables to the identified factors, are calculated. In order for a parameter to belong to a given factor it is recommended that the loading value be not less than 0.40. The factor model is then rotated to transform the factors and make them more interpretable. The rotation phase transforms a factor matrix in which most factors are correlated with many variables into one in which each factor has non-zero loadings for only some of the variables. The most commonly used method for rotation is varimax rotation which seeks to minimise the number of variables that have high loadings on a factor thus permitting the factors to be differentiated from one another. Following rotation, scores for each factor can be computed for each case in a sample. These scores can then be used in further data analysis, such as analysis of variance, correlation and regression analysis. The results of the factor analysis of the variables suggested by Turker (2009) are shown in Table 4.4 and Table 4.5.

Table 4.4
Total Variance Explained (n = 230)

Components	Initial Eigen Values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.99	19.26	19.26	5.99	19.26	19.26	5.09	17.11	17.11
2	3.52	12.37	31.63	3.52	12.37	31.63	3.94	13.37	30.48
3	3.21	11.14	42.78	3.21	11.14	42.78	3.48	11.79	42.27
4	3.13	10.44	53.22	3.13	10.44	53.22	3.12	10.43	52.70
5	2.61	8.22	61.44	2.61	8.22	61.44	2.83	8.74	61.44
6	2.51	3.98	65.42						
7	2.39	3.68	69.11						
8	1.94	3.12	72.23						
9	1.74	2.65	74.88						
10	1.68	2.49	77.37						
11	1.58	2.75	80.12						
12	1.30	2.10	82.23						
13	1.27	2.01	84.24						
14	1.07	1.81	86.05						
15	0.99	1.61	87.65						
16	0.92	1.44	89.10						
17	0.84	1.26	90.35						
18	0.81	1.18	91.54						
19	0.77	1.09	92.63						
20	0.59	1.04	93.67						
21	0.56	0.98	94.65						
22	0.45	0.96	95.61						
23	0.40	0.96	96.57						
24	0.30	0.72	97.29						
25	0.27	0.64	97.93						
26	0.24	0.58	98.51						
27	0.21	0.49	99.01						
28	0.15	0.36	99.37						
29	0.14	0.34	99.71						
30	0.13	0.30	100.00						
31	0.00	0.00	100.00						
32	0.00	0.00	100.00						
33	0.00	0.00	100.00						
34	0.00	0.00	100.00						
35	0.00	0.00	100.00						
36	0.00	0.00	100.00						
37	0.00	0.00	100.00						
38	0.00	0.00	100.00						
39	0.00	0.00	100.00						
40	0.00	0.00	100.00						
41	0.00	0.00	100.00						
42	0.00	0.00	100.00						

Extraction Method: Principal Component Analysis
Source: Primary Data, Compiled from SPSS Output

Table 4.4 above provides the factorial structure of the behaviour of the variables in the sample. In the present sample, a forced five-factor model of CSR has explained 61.44% of the variance. Based on the factor loadings, the variables of CSR in the present study can be compressed to five important factors and on the basis of the nature of variables included in different factors, it can be designated as employees, customers, society, environment and local community. The first factor i.e. local community explains 19.26% of variance includes a total of six variables. This is probably because when first the company brings itself to the work station a set of expectations about the arrangements of CSR is cropped up among the local community initially and then comes anyone else. The second factor i.e. environment explaining 12.37% of variance includes four variables. It is understandable as it is evident that if an organization is given permission to run, it has to meet environmental standards. The third factor i.e. customers explaining 11.14% of variance includes eight variables. The fourth factor i.e. employees explaining 10.44% of variance includes ten variables. Further, the fifth factor i.e. society explaining 8.22% of variance includes twelve variables.

Table 4.5
Rotated Component Matrix (n = 230)

Construct	Variables	Components				
		1	*2*	*3*	*4*	*5*
Employees	1	.001	.179	.235	.696	.248
	2	.063	.199	.146	.660	.208
	3	.011	.286	.127	.409	.189
	4	.205	.103	.122	.415	.067
	5	.243	.215	.288	.439	.072
	6	.143	.010	.220	.424	.087
	7	.378	.378	.016	.577	.117
	8	.011	.065	.388	.567	.071
	9	.042	.175	.226	.402	.050
	10	.111	.394	.001	.479	.073
Customers	11	.183	.152	.643	.092	.157
	12	.257	.252	.407	.225	.213
	13	.020	.394	.482	.181	.059
	14	.142	.151	.580	.149	.045
	15	.029	.265	.468	.031	.044
	16	.178	.398	.433	.184	.178
	17	.002	.399	.507	.171	.033
	18	.013	.231	.602	.042	.035
Society	19	.028	.182	.176	.063	.677
	20	.116	.188	.171	.065	.465
	21	.037	.039	.091	.111	.401
	22	.383	.134	.276	.188	.407
	23	.387	.043	.102	.055	.405

contd. table 5

Construct	Variables	Components				
		1	2	3	4	5
	24	.052	.057	.064	.018	.447
	25	.398	.150	.330	.128	.672
	26	.165	.336	.221	.006	.409
	27	.399	.127	.006	.208	.663
	28	.319	.270	.016	.113	.403
	29	.295	.249	.084	.031	.405
	30	.349	.180	.033	.238	.410
Environment	31	.080	.617	.238	.110	.274
	32	.388	.574	.018	.132	.001
	33	.306	.806	.315	.103	.046
	34	.023	.666	.207	.058	.187
Local Community	35	.656	.089	.234	.083	.009
	36	.676	.042	.143	.140	.191
	37	.587	.068	.211	.192	.065
	38	.627	.253	.322	.202	.025
	39	.617	.175	.211	.190	.226
	40	.536	.090	.188	.062	.057
	41	.589	.020	.010	.079	.022
	42	.726	.161	.199	.000	-.198

Extraction Method: Principal Component Analysis

Rotation converged in 8 iterations.

Source: Primary Data, Compiled from SPSS Output

5. CONCLUDING REMARKS

Hence, to summarize the results of factor analysis, it can be said that the employees place different degrees of priorities to the variables associated with CSR which can be divided into five major categories based on the factors described by the analysis as; local community, environment, customers, employees and society. The results of the study revealed that there are five broad components of CSR and they are perceived in the following order of preference: local community, environment, customers, employees and society.

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