A Conceptual Framework for Integration of Institutional Pressures and CSR Implementation

1.1 Introduction

Corporate Social Responsibility (CSR) is a global phenomenon already (Scherer & Palazzo, 2011) and many corporates in developed and developing countries are engaging themselves in CSR activities (Jamali, 2014). Bowen’s seminal book entitled the ‘Social Responsibilities of the Businessman’ marked the beginning of modern era of CSR research (Ghobadian, Money & Hillenbrand, 2015). Since then, researchers have studied various theoretical and practical aspects related to CSR (Garriga & Mele, 2004) and have linked it with its possible outcomes such as financial performance (McWilliams and Siegel, 2001; Orlitzky, Schmidt & Ryne, 2003) and reputation (Fombrun and Shanley, 1990). In spite of a reasonably long history of CSR research, there are very few studies which treat CSR as a dependent variable and focus on CSR implementation (Christmann & Taylor, 2006; Schembera, 2016). In their meta-analysis of CSR literature Margolis and Walsh (2003) point out that only 15% of the studies have taken CSR as an independent variable. Growing importance of CSR has led researchers to examine the antecedents of CSR implementation such as institutional pressures (Campbell, 2007) and top management related factors (Angus-Leppan, Metcalf & Benn, 2010; Kanupatorawong and MartinezROS, 2013). It is important to study the antecedents of CSR in order to understand the why and how of CSR behaviour (Yin, 2017).

1.2 Institutional theory, Institutional pressures and CSR implementation

Institutional theory, a popular perspective within management theory, provides a useful framework to understand organizations practices, including CSR, as the product of institutional rather than economic pressures (Suddaby, 2013). According to institutional theory, in order to gain legitimacy, firms conform to regulations and widely held beliefs and values and norms of various institutions in the society (Campbell, 2006, 2007). These institutions are the source of institutional pressures.

According to DiMaggio and Powell (1983), organisations in an organizational field face similar institutional pressures and this leads to isomorphism - a process of homogenisation which forces all the units in a population, facing the same set of environmental conditions, to behave in a similar manner. They have referred to three types of isomorphism - coercive isomorphism (shareholder influence, employee influence and government policy); mimetic isomorphism (imitating CSR practices of other organisations to retain legitimacy) and normative isomorphism (pressures emerging from common values). These isomorphic processes drive the organisational practices including CSR practices (Chiu & Sharfman, 2011).

Another important conceptualisation of institutional pressures has been made by Scott (2010). Taking it as the basis, one can say CSR is shaped by regulative, normative and cognitive pressures. Regulative pressure in Scott’s phraseology is coercive isomorphism in DiMaggio and Powell’s typology; normative pressure is similar to normative isomorphism and Scott’s cognitive pressure is mimetic isomorphism under DiMaggio’s classification (Chua, 2011). O’Connor and Gronewold (2013) used both these frameworks in conjunction to explain how institutional theory, with its roots in the idea of legitimacy, can be used to understand CSR behaviour. DiMaggio’s and Powell’s concept of isomorphism and Scott’s framework to develop a conceptual framework for research.

1.3 Conceptual framework

This study proposes a model that integrates institutional pressures, CSR implementation, reputation of the firm and firm performance in Indian context.
Corporate Social Responsibility (CSR) implementation

Although the concept of CSR emerged in 1950’s, a commonly accepted definition is yet to emerge. For defining CSR context becomes important (Votaw, 1972). Campbell (2006) has defined CSR as “a minimum behavioural standard with respect to corporation’s relationship to its stakeholders below which corporate behaviour becomes socially irresponsible.”

For the purpose of proposed framework this definition serves the purpose. India is the first country in the world which has mandated CSR spending under Section 135 of the Companies Act, 2013 and has thus laid the minimum behavioural standard with respect of CSR. This definition lays emphasis on the fact a firm has obligations towards stakeholders who are a part of the society. These are important because the basic assumption of institutional theorists is organisations under institutional pressures adopt policies/behaviour which gives them legitimacy from society (Carpenter and Feroz, 2001). Hence, this definition suits the framework adopted for the present research.

Carroll (1979, 1999, 2004) has elaborated upon firm’s societal obligations which have four dimensions – economic, legal, ethical and discretionary. Economic responsibilities entail providing a good ROI to owners and shareholders; generating employment opportunities; providing financial and non-financial incentives to employees; utilising resources optimally; investing in new technology and working to innovate and create new products and services. Thus, business is the basic economic unit in the society. Legal responsibilities imply that society expects the business to discharge its economic responsibilities within legal framework (e.g. adherence to emission norms, requirements of section 135 of the Companies Act in Indian context). Ethical responsibilities are those which society expects the business to discharge beyond legal framework (e.g. employee volunteering) Discretionary responsibilities are those activities which the business chooses with a view to give back to the society.

Many researchers (Sheth and Babiak, 2010; Shum and Yam, 2011) have used Carroll’s framework in their empirical work. This model has been used to develop scales to measure CSR or Corporate citizenship (Maignan & Ferrell, 2000; Kusku & Zarkada-Fraser, 2004; Truker, 2009). Carroll (1999) has used these terms interchangeably. Helmig, Spraul and Ingenhoff (2016) have developed a scale to measure CSR implementation on its basis. Wood (2010) has attributed popularity of Carroll’s model amongst researchers to its ability to systematically differentiate a firm’s responsibility of only making profits from government’s responsibility of social welfare.

It seems to be a useful model to comprehend CSR in developing countries as it refers to various kinds of business-responsibilities that are critical in conceptualising CSR. (Chakrabarty, 2011, p.6). Carroll’s conceptualisation of CSR implementation may be used to measure CSR implementation.
Institutional Pressures

The conceptual paper proposes three types of institutional pressures – regulative, normative and cognitive - as antecedents of CSR implementation. The impact of CSR implementation on firm performance as mediated by construct of reputation is considered.

Regulative Pressures

Regulative pressures, which lead to coercive isomorphism, encompasses those institutions which exert formal pressures and informal pressures and on whom the business is dependent (DiMaggio and Powell, 1983).

Hypothesis 1 (H1): Regulatory pressures influence CSR implementation positively.

Normative Pressures

Normative pressures “introduce a prescriptive, evaluative, and obligatory dimension into social life” (Scott, 1995; p. 37). To get a license to operate, a business has to adhere to values, beliefs and norms set by society i.e. “what is right to do around here” (Marquis, Glynn and Davis, 2007; p.934)

Hypothesis 2 (H2): Normative pressures influence CSR implementation positively.

Cognitive pressures

These include within its ambit less tangible institutions which have common or shared beliefs and expectations about what constitutes good corporate behaviour. Corporates should interpret these cognitive blueprints and understand what socially responsible behaviour is (Galaskiewicz, 1989).

Hypothesis 3 (H3): Cognitive pressures influence CSR implementation positively.

Reputation

Reputation can be defined in various ways. It is, “a distribution of opinions about an entity, which results in a collective image about that actor” (Bromley, 2001, p. 316). Fombrun (1996; p. 72) defined reputation as, “a perceptual representation of a company’s past actions and future prospects that describes the firm’s overall appeal of its constituents when compared with other leading rivals.” The latter definition serves the purpose of any research study which is based on perceptions of managers.

Researchers such as Aksak, Ferguson, and Duman(2016) have supported the use of institutional theory to understand the relationship between CSR and reputation. In their study of MBA executive students in Malaysia, Abdullah and Aziz (2013), using institutional framework, concluded that all CSR dimensions have an impact on reputation. Institutional theory has put emphasis on the study of norm-governed behaviour and has been used to examine the impact of institutional pressures to go for CSR implementation. It, in turn, impacts a firm’s reputation (Fombrun and Shanley, 1990).

Hypothesis 4 (H4): CSR implementation leads to enhanced reputation.

Firm performance

Value creation or improved firm performance due to financial or non-financial endeavours including corporate social responsibility activities is important for every entity. Firm performance has been defined in various ways. The present research looks at the firm performance as perceived by the managers and not on the basis of pure financial measures. Hence, it is taken as, “The ability of a company to increase its market share and to attract and retain new customers” (Helmig, et al., 2016, p. 157). This approach is appropriate for the present work because subjective assessments of firm performance by managers have been found to be effective (Narver and Slater, 1990; Slater and Narver, 1996; Harris, 2001).
Mediating effect of reputation

Many literature reviews and meta-analysis (Griffin & Mahon, 1997; Roman, Hayibor, & Agle, 1999; Orlitzky, Schmidt, & Rynes, 2003) point out to the results of empirical researches on the relationship between CSR implementation and firm performance. Researchers dealing with the subject have pointed out to the need of introducing intervening variables for studying CSR-Firm performance relationship (Ullmann, 1985; Rowley and Berman, 2000; Margolis and Walsh, 2003; Orlitzky et al., 2003). Empirical evidence has established a positive relationship between reputation and firm performance (Fombrun and Shanley, 1990; Kotha et al., 2001; Roberts and Dowling, 2002; Shamsie, 2003). Doh, Howton, Howton and Siegel (2010) have used institutional theory and reputation along with legitimacy to examine the relationship between endorsements of CSR by expert bodies and firm financial performance for US firms.

Hypothesis 5 (H5): Enhanced reputation leads to better firm performance.

1.4 Managerial implications

Relationship between pressures of CSR and CSR implementation has not yet been explored in Indian context. Such a relationship will tell us why is CSR taken up and influence of which of the pressure groups is considered important while implementing CSR. Moreover, none of the empirical studies undertaken on pressures of CSR in India have used any theoretical framework, though Narayan et al (2012) have emphasised the need for researchers to understand why organizations indulge in corporate social responsibility (CSR) through institutional theory. Besides lacking a theoretical framework, most of these studies focus on single or some of the pressures, thus, only a partial view of CSR emerges. It is important to have an integrative theoretical framework for analysing the impact of all the pressures put together on CSR implementation for a more holistic view (Helmig et al., 2016).

Managers’ perceptions of different kind of pressures’ have an impact on CSR implementation and it, in turn, impacts corporate reputation and firm’s performance. Yadav (2014) based his conclusions on CSR – Reputation link on the basis of perception of consumers and Pradhan (2015) established a link between CSR- Reputation- Firm Performance on the basis of secondary data. Many firms in India have been undertaking CSR activities much before the mandated expenditure under the law. Mamta Binani, President of the Institute of Company Secretaries of India describing CSR as “Complete Strategy Recycling,” has urged corporates to use CSR for building their corporate reputation to ensure that company’s interests in maintaining market share in the long run is protected.

The study will help to understand the relationship between CSR- Reputation- Firm Performance as perceived by Indian managers and whether they perceive CSR as one of the most important business cases in respect of corporate reputation building. This is important because researchers are able to ‘draw measurable, testable links from [CSR] to outcomes such as reputation and from there to FP’ (Wood, 2010). According to Wood (2010), studies of mediation are necessary because they drive research away from a theoretically untenable relationship (i.e. direct links between CSR and FP).

1.5 Future research

India through the Companies Act, 2013 has imposed corporate social responsibility (CSR) obligations on many public traded companies operating in the country (Jain, Aguilera & Jamali, 2017). Mandated spending on listed activities under the comply or explain rule has a definite influence on CSR activities of corporate India at present but the fact remains that Indian companies have been contributing immensely in social domain even before the time we got independence from British rule (Kanagasabapathi, 2007). Businesses in India should convert mandatory CSR engagement from obligation to strategy. Empirical evidence suggest that that CSR strategy varies quite significantly
among corporates (Lindgreen, Swaen & Johnston, 2009) depending upon kind of pressures it is subject to (Lee, 2011). It is important to unravel these pressures within the theoretical framework provided by the institutional approach to CSR through empirical studies. The proposed framework can be used for such studies.

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