Examining the Level and Determinants of Corporate Social Responsibility in Fiji

Mahendra Reddy

Abstract

Corporate social responsibility consists of a firm's policies and practices defining its social and environmental commitment and the instruments to use to deliver on to those policies. While corporate social responsibility is not a new matter, there does exist a view that CSR in small developing economies could affect economic growth. However, a large number of studies have dispelled this 'myth' thus stressing the importance of a socially responsible conduct for firms in a competitive market. In this paper, we construct and examine a CSR index for Fiji's financial and business sector. This index is then examined by further decomposing it by firm type and index subcomponents. We then examine if firm's specific factors affect the level of CSR index.

Introduction

Fiji's economic growth over the last two decades has been sluggish. Prior to mid 1980's, the Fijian economy was highly protected, with government adopting an inward looking policy stance. However, with the onset of globalization in the 1980's, Fiji and other Pacific Island economies have rapidly been undertaking reforms to ensure that they are able to benefit from these new state of the world order. In this state of play, certain industries have been sidelined, some have increased their prominence while some new ones have emerged. All these have reacted to local and global market signals. In Fiji, industries that have witnessed rapid growth include tourism and information technology.

Fijian Studies Vol. 9 No. 2 © Fiji Institute of Applied Studies

Following nearly two decades of a more outward looking open market policy oriented growth stance, growth of Fiji's economy has not been very promising. During this period, Fiji, fraught with a number of political problems as well as external shocks, was barely able to deliver significant growth rates. In its 2011 Outlook, the ADB writes:

> After contracting in 2009 the economy achieved slight growth in 2010, based largely on a recovery in tourism and some goods exports, though the sugar industry weakened for a fourth consecutive year. Low levels of growth are forecasted for 2011-2012 accompanied by moderate inflation (2011: 223).

Economic growth depends strongly on the growth of industries. However, this growth, based on primacy of market forces can inevitably lead to inequality and increased incidences of environmental problems. As a result, there are increasing calls from NGO's, civil society organizations and governments for the corporate sector to show greater care for the society and environment and become environmentally, morally and socially responsible. Corporate social responsibility does not relate only to the sustainability of the society, but also to the sustainability of the organisation itself since it contributes to the motivation and involvement of the staff and, therefore, enhances a company's potential for improvement and economic development.

CSR emerged in the late 1980s as a label for a philosophy of economic growth in business that values only those gains that can endure into future generations. CSR ensures that the company's operations are 'sustainable' i.e., it is recognized that it is necessary to take into account not only of the financial/economic dimension in decision making but also of the ethical, social and environmental consequences. The economic impact of social responsibility can be translated into direct and indirect effects for companies that practice it.

While one may continue to call for increased CSR from the business sector, it may help policy makers examine the sectors which demonstrate different levels of CSR. Furthermore, identification of what components of the Index are poorly addressed by firms will greatly assist in recommendations to firms to increase their commitment to the society. It may also be worthwhile if the key firm specific determinants of corporate social responsibility can be identified so that limited resource to encourage greater CSR can be better utilized.

In the following section, a brief review of the literature on CSR is undertaken. Following that, the methodology and the theoretical model of the study is presented, followed by results and discussion.

Corporate Social Responsibility: An Overview

Gustafson (2006) defined corporate social responsibility as an ongoing commitment by business to behave ethically and to contribute to economic development while demonstrating respect for people, communities, society at large, and environment. Redmond (2003) calls social corporate responsibility as an ultimate source of (an institution's) moral legitimacy. Likewise, Ludescher and Mahsud (2010) defined corporate social responsibility as an activity that promotes the welfare of any stakeholder of a business corporation. CSR also refers to activities designed to enhance environmental stewardship (sustainability).

Social responsibility requires the accomplishment of a set of duties and obligations, whether individuals or firms in relation to society and the communities in which the organisation operates. Social responsibility is important to all stakeholders in corporate activity. In addition, Coelho, et. al., (2011) note that social responsibility presupposes the existence of an ethical and responsible corporate behaviour; a set of values; an entrepreneurial strategic poster; a relationship strategy; a strategy of institutional marketing; a strategic valuation of the shares; a human resource strategy; a strategy to develop products/services; a strategy of integration into the community; a strategy of social development in the community; the promotion of individual and collective citizenship; and the exercise in the ecological awareness and professional training. Those are the multiple aspects that constitute an integrated support to a responsibility that organisations must take, including to ensure their long-term operation.

Margolis and Walsh (2001) note that it has been evident that there is a positive relationship between a firm's financial performance and social corporate reporting (social performance). It was further explained by Emory International Law Review (2010: 27) that corporate social reporting was an attractive step to increase investment strategy.

> In addition to enhancing corporate image, advocacy of human rights promotes much-needed integrity in national legal and fiscal systems. In turn, this integrity creates a secure investment environment by discouraging arbitrary decisions, protecting intellectual property rights and ensuring economic stability, thereby fostering an atmosphere conductive to future growth. Characterizing human rights in this manner serves to transform the topic from one posing, a potential threat of corporate opportunity.

Corporate social responsibility is a voluntary integration of social and environmental concerns in the daily operations of the organization's stakeholders. Emphasis on an enabling environment invariably meant a renewed emphasis on the role of government in corporate social responsibility. According to Hamann (2006) the state is not only an important roleplayer in enforcing corporate social responsibility, but state institutions themselves also have to learn from the principles and practices associated with corporate social responsibility. However, most developing countries fall short of providing an enabling environment that is readily available in developed countries (Fox, 2004).

Ludescher and Mahsud (2010) argued that corporate social responsibility's gravest danger may be that it diverts our attention from the deeper ethical issues surrounding the real values of products and towards superficial considerations of business/society engagement and organisational ethics. Corporate social responsibility becomes nonsensical when it is applied to businesses whose mission is to create products that are addictive, hazardous or destructive. The primary way in which businesses are assessed by potential investors is through perceived corporate social performance. This indicator measures the ability of firms to meet or exceed the expectations of various stakeholder groups on important social issues (Wood, 1991). Thus, companies that provide socially responsible products, engage in cause-related marketing, or donate to non-business entities may engender corporate social responsibility associations that enhance their overall product or brand evaluations (Machan, 2004; Smith and Alcorn, 1991). Drumwright (1994) points out that corporate social responsibility represents a differentiating factor that may be used successfully by firms to distinguish themselves within their industries.

Whitehouse (2006) explained that corporate social responsibility policies have been tailored to achieve a hierarchy of objectives beginning, first and foremost, with ensuring the survival success of the firm by maintaining and enhancing profitability. As Friedman had suggested, corporate social responsibility is one of the means to enhance profitability. Likewise, McClaughry (1972) states that given the attitude of the public at large one way to enhance profit is to profess social responsibility. One of the aims of corporate social responsibility policies is to enhance or maintain employee morale and retention of customer loyalty and the company's reputation.

The inability to identify with certainty the benefits arising from corporate social responsibility policies is problematic considering that such policies have to be justified to the Board by reference to substantive and quantifiable outcomes. Maignan and Ferrell state that 'a large number of managers remain wary of committing resources to an activity which is not known to be associated with any specific market or performance gain' (2001: 12).

While benefits are difficult to measure, the decision not to adopt a corporate social responsibility agenda would, without question, result in negative outcomes. This view is supported by Mohr et al. who, following a survey of consumers within the US, found, 'strong, consistently negative impact of unethical or irresponsible corporate behaviours, with this factor neutralizing or even dominating traditional purchase and retailer selection criteria' (2001: 35).

It would appear, therefore, that while consumers may not be educated about the corporate social responsibility policies of particular companies, they are influenced by well publicized examples of 'corporate misbehavior', which can be eased to some extent by the introduction of an index designed to rate companies with respect to their corporate social responsibility performance.

Model and Method

To ascertain the determinants of a Corporate Social Responsibility index, based on *a priori* theory, we model it as a function of three key variables, Age of Business, Ownership type and size of business based on turnover. In light of this, the following theoretical model is specified:

$$Y_i = \alpha + \beta X_i + \varepsilon_i$$

Where Y_i = 1 if the index is higher than 3.5, and 0, if the index is less than 3.5;

X_i = vector of explanatory variables; and

ε_i = random error term.

Application of Ordinary Least Squares (OLS) techniques to estimate the above model will result in inefficient estimates since the error term is heteroscedastic. Moreover, the parameter estimates will be inefficient (Goldberger, 1964; Pindyck and Rubinfeld, 1983). In addition, due to a non-normal error structure, classical hypothesis tests such as the t-test are not appropriate (Shakya and Flinn, 1985). Given this problem, a commonly used approach is to transform the original model using a cumulative probability function in such a way that the predictions (P) will lie in the (0,1) interval for all X. A large number of studies exist in the literature which have utilised this model to explain the probability of adoption or acceptance by decision makers (see Reddy, *et. al*, 1999; Masuo and

Reddy, 1997 and Yanagida and Reddy, 1997). This study utilizes this concept and adopts the Probit probability model (which utilizes the cumulative normal probability function) for estimation. The Probit model can be shown as follows:

$$Pi = F(Zi) = F(\alpha + \beta Xi) = \frac{1}{\sqrt{2\pi}} \int_{-\infty}^{\alpha+\beta Xi} e^{-x^2/2ds}$$

Where P_i = probability that the event occurs;

e = base of natural logarithm;

s_i = random variable with mean zero and unit variance.

The empirical model could be stated as follows:

$$Y_i = \beta_{iA} \text{ Age}_i + \beta_{iO} \text{ Ownership}_i + \beta_{iT} \text{ Turnover} \qquad (3)$$

$$\beta_{iA} > 0,\ \beta_{iO} < 0,\ \beta_{iT} > 0. \qquad (4)$$

Where: Age_i: = Age of business; $Ownership_i$ = Ownership, Local = 1, Foreign= 0; $Turnover_i$ = Total value of gross sales for last year.

It is expected that firms with longer period in operation may decide to give direct benefit to the society and thus have likelihood in engaging in community, environment and social work. Foreign firms are expected to have greater social responsibility given that they would want to protect their international branding. Larger firms may also protect their capital base by working with the community. The above model can be estimated using the Maximum Likelihood technique.

This study requires obtaining primary data from the business sector with regard to activities that they are undertaking to demonstrate their social responsibility. A structured questionnaire was designed to obtain firm specific information on variables such as ownership of business, age of business, firm size with respect to asset value and turnover and nature of business. The questionnaire had four sets of questions to obtain data on a Likert scale. The four sets, with 10 questions each, included:

a) Corporate Governance Strategy: This category had questions relating to social responsibility strategies, presence of a board committee on social responsibility, monitoring systems, CSR values, budgetary allocation for CSR, commitment to international agreements pertaining to environment and society.

b) Ethical Sourcing: This category had questions on stakeholder consultation, strategies to maximise employee capabilities, improvement of employee conditions, capacity building of employees, safety standards, purchasing policy and supplier code of conduct.
c) Environmental Investment: This category explicitly examined the practices of the firm in relation to ensuring our environment is sustainably maintained. Questions included financial allocation for environmental issues, systems in place to deal with emissions and waste production, strategies to deal with environmental degradation, and audits in place for environmental policies.
d) Community Investment: This category of questions dealt with the firm's involvement with the society. It examined the firm's contribution to charitable activities, financial allocation to charitable organisations, variables activities with NGO's, and activities to promote charitable organisations.

The responses would lie within the range of 1 (Not important) to 4 (moderately important) to 7 (extremely important).

The questionnaire was first emailed using Fiji Commerce Commission's database to all Hardware outlets, all financial sector institutions, all supermarkets and all public utility companies. However, due to very poor turnaround of filled questionnaires, Price Inspectors from the Commission assisted the researcher in doing face to face interviews. A total of 126 firms responded from Fiji's two main islands. Primary data from these questionnaires were then logged onto an Excel spreadsheet for analysis.

Results and Discussion

Measures of Corporate Social Responsibility Index

The individual CSR index and its sub components are provided in the table below. Results from primary research reveal that CSR index for the sampled firms in Fiji is 3.78, slightly below the average of moderately important. Of the total index, the highest CSR is for community investment (4.38) while the lowest is for ethical sourcing (3.37). The analysis also reveals that apart from Community Investment, all the three components of CSR index are below average.

Table 1: Corporate Social Responsibility Index of Business in Fiji, 2011

Business Type	CSR Strategy	Ethical Sourcing	Environ-mental Investment	Community Investment	Average CSR Index	N
Manufacturing/Indus	3.6	3.1	3	4.2	3.5	48
Retail & Distribution	3.6	3	3.2	5	3.7	5
Transportation	3.9	3.5	3.3	4.5	3.8	13
Utilities & Telecom	3.6	3	3.8	4.4	3.7	4
Financial Services	4.6	3.5	4.2	4.8	4.3	11
Tourism	4.8	4.6	4.2	4.8	4.6	8
Media & Comm.	3.3	3.3	3.4	3.7	3.5	13
Food and Beverage	3.5	2.9	3.2	4.6	3.6	11
Public Corporation and Local Authority	3.8	3.8	3.9	4.5	3.7	9
Agriculture & Agri Processing	4.3	3	3	3.3	3.4	4
Average	3.9	3.37	3.52	4.38	3.78	

The analysis presented in Table 1 also shows the CSR index industry wise. The Tourism and Financial services sector demonstrates a favourable CSR index. Apart from these two, the rest of the industry groups have below average CSR activities. The lowest CSR index is for the Agricultural and Agribusiness sector (3.4). The low levels of CSR involving sourcing of inputs and environmental investment are two issues that must be addressed if the business sector in Fiji are to increase its overall responsibility to the environment and society.

Ownership, Age and Size vs. Corporate Social Responsibility

The analysis presented in Table 2 further examines the CSR index with respect to various firm specific factors. The results provide some interesting explanations. With respect to ownership, the analysis shows that foreign firms have a slightly higher CSR index. This may be due to the fact these foreign firms have established a product brand which is marketed based on its corporate social responsibility activities. The local firms may be smaller in size and have yet to have a base strong enough to divert funds towards the development of the society and/or improvement of the environment. In this regard, the larger firms have greater corporate responsibility than the smaller ones. Examining whether age of the business matters, results again demonstrates that older firms have a greater corporate social responsibility conduct than more recent ones.

Table 2: Factors Affecting Corporate Governance Index

Ownership Type	CSR Strategy	Ethical Sourcing	Environ-mental Investment	Community Investment	Average CSR Index
Local	3.7	3.1	3.2	4.2	3.5
Foreign	3.8	3.3	3.4	4.4	3.7
Age of Business vs CG Index					
< 20	3.4	3.2	3.5	4.0	3.5
20 - < 40	3.9	3.2	3.2	4.3	3.6
≥ 40	4.3	3.7	4.5	5.0	4.4
Asset Vs SG Index					
≤ 250, 000	3.6	3.3	3.0	4.1	3.5
250,000 - ≤ 500,000	3.7	3.2	3.0	4.2	3.5
> 500,000 - ≤ 1,000,000	3.8	3.1	3.9	4.2	3.7
1,000,000 - ≤ 1,500,000	3.5	3.0	3.1	4.8	3.6
1,500,000 - ≤ 2,000,000	4.5	3.6	4.0	4.0	4.0
2,000,000 - ≤ 2,500,000	3.9	3.2	4.2	4.5	3.9
> 2,500,000	5.0	4.2	4.6	5.0	4.7
Turnover vs CG Index					
< 1m	4	3.2	3.2	4.1	3.5
1m - ≤ 5m	3.7	3.2	2.9	4.3	3.5
5m - < 10m	3.3	3.0	3.2	4.2	3.4
10m - < 15m	3.9	3.3	3.5	4.6	3.8
15m - < 20m	4.0	3.3	4.4	4.5	4.1
≥ 20m	4.7	4.0	4.6	4.9	4.6
Overall	3.8	3.3	3.4	4.4	3.7

Firm Specific Determinants of Corporate Social Responsibility

Results of the Probit model analysis demonstrates that ownership type of a firm has an impact on the likelihood of activities relating to

Corporate Social Responsibility. The model examined the impact on a firm's CSR the variables of age of business, ownership type of the business and the business turnover. Of the three variables, the only variable that has a significant impact on the likelihood of increased corporate social responsibility is age of business. The older a business is, the larger their commitment to corporate social responsibility.

Table 3: Maximum Likelihood Estimates of the Probit Model

Variable	Coefficient	Probability
Age	0.073	0.003
Ownership Type	-1.484	0.012
Turnover	0.045	0.027
N	126	
Log Likelihood	-67.63	

Summary and Policy Implications

Business sector's commitment to social responsibility will ensure economic, social and environmental benefits. Good corporate citizenship is attractive to its consumers, investors and stakeholders and ensures the sustainability of it operations.

In this study, we estimated CSR index for a range of businesses in Fiji. The index ranges from 1 (not important/relevant/adequate) to 4 (moderately important) to 7 (extremely important/relevant/adequate). Results reveal that CSR index for corporations in Fiji is generally low. Amongst the four components of CSR, the lowest are ethical sourcing and environmental investment. Ethical sourcing deals with how the firm looks after its employees. Employees are the greatest asset of any business and thus long term sustainability requires firms to invest in its employees. The low CSR on this component of CSR is concerning. Environmental investment by a firm is also critical for long term sustainability of the country and thus the firm.

Given the low levels of CSR index, raising the commitment of the business sector may require a regulatory approach by the Government. Government, via, Ministry of Commerce, may include, as one of the provisions of business license, that every business demonstrate its commitment to the society and environment with visible activities and inputs.

References

ADB (2011) *Asian Development Outlook 2011*. Asian Development Bank; pp. 1-265.
Charitonenko, S. and A. Campion (2003) Expanding Commercial Microfinance in Rural Areas: Constraints and Opportunities, available at: www.basis.wisc.edu/live/rfc/cs_05a.pdf.
Goldberger, A. S. (1964) *Econometric Theory*. New York: John Wiley and Sons.
Pindyck, R. S. and D. L. Rubenfeld (1983) *Econometric Models and Econometric Forecasts*. Tokyo: McGraw Hill Book Company.
Shakya, P. B. and J. C. Flinn (1985) 'Adoption of Modern Varieties and Fertilizer Use on Rice in the Eastern Tarai of Nepal'. *Journal of Agricultural Economics* 36(3): 409-19.
Coelho, M., J. Filipe and M. Ferreira (2011) 'Environmental Sustainability as a Dimension of Corporate Social Responsibility: The Case of CGD – Caixa Geral Depo'sitos'. *Portugal, International Journal of Academic Research* 3(1): 610-17.
Drumwright, M. E. (1994) 'Socially Responsible Organisational Buying: Environmental Concern as a Noneconomic Guying Criterion'. *Journal of Marketing* 58(3): 1-19.
Drumwright, M. E. (2010) 'Home is Where the Halt is: Mandatory Corporate Social Responsibility through Home State Regulation and Social Disclosure'. *Emory International Law Review* 24: 735-49.
Fox, T. (2004) 'Corporate Social Responsibility and Development: In Quest of an Agenda'. *Development* 47: 26-36
Gustafson, J. (2006) 'Corporate Social Responsibility: Are You Giving Back or Just Giving Away?'. *In Business: The Ultimate Resource* (2nd ed): 372.
Hamann, R. (2006) 'Can business make decisive contributions to development? Towards a research agenda on corporate citizenship and beyond'. *Development Southern Africa* 23: 175-95.
Ludescher, J. and Mahsud, R. (2010) 'Opening Pandora's Box: Corporate Social Responsibility Exposed'. *The Independent Review* 15(1): 123-31.
Machan, T. R. (2004) 'Aristotle and the Moral Status of Business'. *Journal of Value Inquiry* 38(2): 217-23.
Maignan, I. and O. C. Ferrell (2001) 'Corporate Citizenship as a Marketing Instrument: Concepts, Evidence and Research Directions'. *European Journal of Marketing* 35(¾): 457-84.
Margolis, J. D. and J. P. Walsh (2001) *People and Profits: The Search for a link between a Company's Social and Financial Performance.* Elbaum, Mahwah, N.J).
McClaughry, J. (1972) 'Milton Friedman Response'. *Business and Society Review* 1(Spring): 5-16.
Mohr, L. A., D. J. Webb and K. E. Harris (2001) 'Do Consumers Expect Companies to be Socially responsible? The Impact of Corporate Social Responsibility on Buying Behaviour'. *Journal of Consumer Affairs* 35(1): 45-72.
Redmond, P. (2003) 'Transnational Enterprise and Human Rights: Options for Standard Setting and Compliance'. *International Law* 37(2): 69-70.
Smith, S. M. and D. S. Alcorn (1991) 'Cause Marketing: A New Direction in the Marketing of Corporate Responsibility'. *Journal of Consumer Marketing* 8(3): 19-35.

Whitehouse, L. (2006) 'Corporate Social Responsibility: Views from the Frontline'. *Journal of Business Ethics* 63(2): 279-96.
Wood, D. J. (1991) 'Corporate Social Performance Revisited'. *Academy of Management Review* 16(1): 691-718.

Author:

Mahendra Reddy is Dean of the College of Business, Hospitality and Tourism Studies, Fiji National University. Email: mahendra.reddy@fnu.ac.fj