

# CSR Practices in Service Sector: An Exploratory Study

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## ABSTRACT

The service sector plays a vital role in underpinning the economic development of a country. The focus of this study is to identify internal impact of Corporate Social Responsibility (CSR) activities over the employees of the service sector organizations engaged in such activities. The importance of CSR practices has become an important issue for employees' perception. Better organization effectiveness can be maintained when it keeps employees satisfied and productive. CSR has both internal and external practices. This research study is related to the internal CSR practices on what employees perceive about CSR in their organizations. Service sector companies are selected for the research because they are currently undergoing continued expansion. In order to gain competitive advantage and adapt to the dramatic changing environment, it is important for them to achieve management efficiency by increasing employee satisfaction in the organization. Hence this research was mainly undertaken to investigate on the factors of significance of Corporate Social Responsibility practices in service sector affecting the employees' perception.

**Keywords:** CSR, Corporate Social Performance, Corporate Philanthropy, Strategic Planning, Competitive Advantage

## INTRODUCTION

CSR is an expression which can be understood by its three components, namely, corporate, social, and responsibility. CSR expresses the relationship between the organizations and the society, where they operate. It also lies in the accountabilities that are innate in both the organizations and the society. CSR enables us to understand society in its extensive sense and comprehensively, completely taking into consideration all stakeholders and essential constituent units, that either directly or indirectly, are constantly involved in the working of the organizations. Stakeholder units take into account clearly identified consumers, employees, suppliers, creditors, and regulating bodies and some other less related units, like local communities and also the environment. For the organization, transactions must be carried out amongst these contending interests.

CSR, consequently, is a fluid notion. It is both a means and an end. An essential component of the organization's policy—the manner in which the organization goes about supplying its products or services to markets (means)—it is also a process of retaining the validity of its actions in the larger society by transporting stakeholder concerns to the forefront (end). The triumph of a firm's CSR lies in how nicely it has been able to direct stakeholder concerns during the implementation of its business model. CSR signifies appreciating the interdependent relationships that lie among businesses, their stakeholder groups, the economic system, and the societies within which they exist. CSR is a platform for deliberating the responsibilities a business has towards its immediate society, a manner of offering policy ideas on the way those responsibilities can be carried out, and an instrument for recognizing the mutual advantages for accomplishing those responsibilities. To put it simply, CSR states an organization's relationships with its stakeholders. Corporate Social Responsibility (CSR) is not a term, which can be defined within exact boundaries, nor is there an acknowledged particular way or methodology that all organizations should essentially follow. Numerous variables can be assimilated into an action plan. Companies must, thus, evolve their own interpretation of the scope of CSR, and frame a strategy to carry out their maneuvers in a socially responsible manner so that their complex system of internal and external stakeholders, consisting of their workforce, investors, creditors, analysts, and the surrounding society, gets targeted.

Lately, CSR as a concept has been the center of various deliberations and studies. It has gained significance both in terms of academic as well as in the business sense. It incorporates a range of values and criteria for gauging an organization's role in the development of the society. An appropriately instigated CSR concept can be instrumental in bringing along multiple competitive advantages, like being able to reach out to the

capital and markets more easily, enhanced sales and earnings, operational cost savings, increased output and quality, proficient human resource base, improved brand image and repute, boosted customer loyalty, better judgment making and risk management strategies. Corporate Social Responsibility (CSR) denotes running an enterprise in a way that exhibits responsibility for the social and environmental effect generated by the enterprise. CSR signifies a commitment to framing policies that incorporate responsible practices into everyday business operations, and to reporting on advancement made towards executing these practices. Initial CSR reports mostly centered on philanthropy, as a driver of CSR. That idea has been displaced by a comprehensive commitment to guarding and bettering the lives of workers and the communities within which organizations carry out their businesses. Today, CSR reports particularly deal with factors affecting practically every aspect of functioning: governance and values; recruitment of workers, prospects and training; responsible purchasing and supply chain regulations, and energy and environmental effect.

Corporate Social Responsibility differs from the conventional notion of corporate philanthropy in terms of quality. The accountability that the organization has towards the society, where it functions as a stakeholder in business actions, is allocated by CSR. Concurrently, it also delineates the organization's synchronization with social activity groups in supporting financially and otherwise to aid development plans, particularly among underprivileged groups. The up-coming viewpoint on corporate social responsibility centers on duty towards stakeholders (shareholders, workers, administration, consumers and society) instead of revolving around amplification of profit for shareholders. In addition, it emphasizes largely the long-term sustainability of business and environment and the propagation of welfare. Service industry started escalating with knowledge intensive organizations leveraging the quick technological changes after the information technology revolution. These progresses occurred under the sensor, with not many people recognizing that a great shift in pattern was on its way. Technology brought innovative ways of doing business as the computing power, data storage capacity and data transmission capacity was amplified. Actually, every new improvement in technology is ahead than the previous one.

Consequently, technology became all pervasive and nearly universally reachable. An organization's actions for the betterment of society are both an issue of external communication and a manner to have an impact on employees' perceptions about their company. This research demonstrates that CSR can have an impact on social exchange dynamics as well as on social identification processes inside the service industry. It amalgamates these two approaches in a new structure elucidating the way CSR perceptions encourage the adoption of workplace attitudes and conduct that may eventually enhance corporate performance. This system provides a direction to further research about the way organizations, in performing well by doing good, can motivate their employees to indulge in both efficient and socially responsible conducts.

## REVIEW OF LITERATURE

According to Parker et al. (2003), "employee perception of CSR and their behavioral relationship consequences have not been identified appropriately. Known that employees' perceptions will influence individual behaviors significantly, employees' perceptions regarding CSR are understood to envisage individual level effect like organizational commitment, in-role behavior (IRB) and extra-role behavior (ERB)". Weick (1995) says that "employee perception differs from person to person as it represents employees' understanding of organizational activities and sense making process". Subsequently, "this kind of perception will give way to employees' attitudinal and behavioral reaction" as studied by Rodrigo & Arenas (2008).

Riordan et al., (1997) established that "employee's perceptions of corporate image can affect job satisfaction in an optimistic manner, and adversely affect profit and profit objectives by reinforcing their identification with the company". According to Pratt (1998), "organizational identification is the extent to which members of the company observe that the defining attributes of the company and their own are common". According to the social identity theory, "individuals have a tendency to strengthen their self-esteem" and augment their "self-image by identifying with groups and establishments known for their social commitment and accountability". Pivato et al. 2008 contend that although a substantial amount of research has been conducted in the field of CSR, literature resulting from it is restricted in a significant manner i.e. effect of CSR activities on the in-house stakeholders—the employees. According to Balmer and Greyser (2002) employees' perceptions and viewpoints about a company's values and devotion to society are vital in molding their conduct towards the firm and the management, but this important feature of CSR has carelessly been overlooked by the researchers of this field. Aguilera et al., (2007) supported this opinion contending that so far, not much study has been done on the employees as a unit of scrutiny in the research conducted in the field

of CSR. Moreover, they believe that although the CSR initiatives hold a lot of relevance for employees' approaches and conducts, still this aspect of CSR remains to be examined by the OB and HRM researchers.

“Conversely, if an employee perceives that his or her organization behaves in a highly socially responsible manner even towards those outside and apart from the organization, he or she is likely to have positive attitudes about the company and work more productively on its behalf”. The researchers also contend that “when employees, like other stakeholders, regard their organizations as responsible, compassionate, and benevolent citizens of their community (a goal of CSR activity), they will be more likely to be contented with their employment relationships with such organizations”. Likewise, Ellis, A. D. (2008) refers to a term “Personal Social Actions (PSA) PSA—the activities that do not include CSR initiatives undertaken by the firm that have no employee involvement such as community grants, donations, corporate-wide sustainability programs, and in-kind donations”—and says that “employees who have the opportunity to personally and directly engage in personal social actions (pro social behavior to the outside community, not to those in organization) will experience stronger positive outcomes than those employees in organizations who do not have the opportunity to act directly or those who choose not to”.

Coldwell, (2000), is a theoretical and empirical research on the perceptions and expectations of Corporate Social Responsibility. This research centers on the issue of variations in individual perceptions and expectation of Corporate Social Performance (CSP) and there is proof to support possible underlying connections between CSP, Corporate Reputation (CR) and Corporate Financial Performance (CFP). In the research a five point Likert - type scale was employed, stretching between strongly agree to strongly disagree and other data item in the questionnaire incorporated: age, gender, ethical group and home language. It was established that the perception/expectation of CSP gap is not one comprising only of two parallel lines but where the likelihood of a joining could happen. Ehsan and Ahmed (2012) are pertinent to the Pakistan viewpoint. According to them “the company’s social responsibility and positive conduct instills trust in the employees towards the company, motivates them, and molds their self-confidence”. The researchers also study the kind of relationship between employees and corporate social responsibility in the conditions of Pakistan employing statistics of approximately one hundred companies from the Manufacturing sector for the time period of 2006-2009”. The researcher has analyzed the data using “Correlation and Generalized Least Square Random Effect Regression based applied Statistical tools and techniques”. Findings of the work has detected that “the relationship between employee and CSR is positive” as far as the Manufacturing sector of Pakistan is concerned. Consequently, the positive relationship underlines the optimistic social conduct of companies in Pakistan in manufacturing sector.

Ashforth & Mael (1989), in the past the studies such as this, established that CSR initiatives not only influence the outlook of the prevailing employees, they also showed their influence over the selections made by the probable employees. According to them, individuals get inclined to identify with companies when they perceive that the company has outstanding characteristics, high reputation and a lucrative image, which in turn makes them believe that joining such company would enhance their own self-esteem. These authors believe that “a corporate’s socially responsible activities send a positive gesture to prospective employees”. Subsequently, the employees possibly “get identified with a responsible company”, particularly if their ethics match with promoted practices. These researches indicate the way a socially responsible image affects corporate attractiveness for probable workers like “undergraduates or MBA students” (Blackhaus et al., 2002).

Ellis, A. D. (2009) throws light on an elusive point and contends that “the knowledge of social responsibility policies among the employees may be equally or more important than firms’ actual CSR policies themselves for there is a possibility of employees having confusions regarding their organization’s policies”. If employees do not have sufficient knowledge about their organization’s CSR initiatives, then they will not have any effect on employees’ outlooks or conducts. According to the researcher when employees have knowledge about an organization’s CSR initiatives, an anticipation as a psychological contract is formed, and on the contrary, misunderstandings of CSR initiatives may give way to inadvertent influences, like disappointment that the organization is unable to utilize the resources efficiently. Nevertheless, Sen and Bhattacharya (2001) believe that mere knowledge of CSR activities is not enough to incite positive results. To a certain extent, “employees must also perceive the CSR initiatives to be efficient and in conjunction with the organization’s actions or ethics”. Bhattacharya and Sen, (2004) go to the extent of suggesting the employees to try to evaluate the intents of the firm regarding its expenditure on CSR initiatives and to find out the reasons behind the firm’s engagement in the specific activity.

**OBJECTIVE**

To explore the factors affecting employee’s perceptions towards CSR practices in service sector

**RESEARCH METHODOLOGY**

**Research Type:** Exploratory

**Sampling Unit:** Employee of various companies working in service industry

**Sample Size:** 175

**Sampling Technique:** Convenience Sampling

**Tools for Data Collection:** A self-developed questionnaire based on literature review was used to explore the factors affecting employees’ perceptions towards CSR practices in service sector.

**ANALYSIS AND INTERPRETATION**

**Normality Test**

Most statistical tests are based on the assumption that the data are normally distributed therefore, there is a need to check the distribution. The Kolmogorov- Smirnov Statistic tests the hypothesis that the data is normally distributed. A low significance value, less than 0.05 indicates that the distribution of the data differs significantly from a normal distribution. The results of the test show that the assumption holds good for the data. The data is normally distributed (2.594)(Table 1).

**Reliability**

Reliability test tests the reliability of CSR Practices, using the Coefficient (Cronbach Alpha). Reliability of data is (.774) (Table 2) which is excellent. According to different theories of reliability, value above 0.6 is appropriate, low value below 0.5 suggests that reliability may not be appropriate.

**Factor Analysis**

SPSS was used for factor analysis and following four factors were found:

**Table 5.1: Factor 1: Corporate Social Performance**

S.No.	Statements	Factor Loading
1	I feel CSR improves community relation and public image	.688
2	I understand that Company has awareness of Social Initiatives	.675
3	I feel CSR improves Social bottom lines	.649
4	I feel that CSR as an effective catalyst for bringing about positive societal change	.572
5.	I feel CSR improves Environmental bottom lines	.540
6.	I feel CSR improves employee Satisfaction ,Morale and Loyalty	.522
7.	I understand CSR helps to manage Brand image of the company.	.503
	Total Factor Loading	4.149

As shown in Table 5.1, there are seven variables affecting the factor, Corporate Social Performance. The first variable tells about Community relations and public image, the second variable is related to Awareness of social initiatives, third speaks about Social bottom lines, fourth is related to Positive social change, fifth speaks about Environmental bottom lines, sixth is about Employee satisfaction, morale and loyalty and the seventh tells about Brand image of the company. Each of these variables represents the benefit of achieving a positive social change and maintenance of public relations by being socially responsible. Therefore, this factor is labeled as Corporate Social Performance (explained 35.624 percent of the variance). “Corporate

Social Performance (CSP) is understood as a firm’s arrangement of ideology of social responsibility, processes of social responsiveness, and noticeable results as they relate to the organization’s societal relationships” (Wood, 1991). The model offered by Wood to gauge corporate social performance is considered as the most apt and, therefore, has been frequently discussed in the CSR literature.

**Table 5.2 :Factor 2: Strategic Planning**

S.No.	Statements	Factor Loading
1.	I believe that CSR is linked to Company Profitability	.892
2.	I believe CSR activities are like a reactive strategy	.793
3.	I feel the Company is attempting too many objectives	.531
	Total Factor Loading	2.216

Table 5.2 indicates that high positive loadings have been noted on three variables—one variable tells about Profitability, second variable tells that CSR is a reactive strategy and third variable tells about Firm’s concentrating on too many objectives, so objectives were diffused. Based on the variables this factor is labeled as Strategic Planning (explained 22.763 percent of the variance). Husted and Salazar (2006) argue, that “the CSR strategies take care of both the social objectives and profitability, as society and shareholders desire both and the outcomes should be positive. Hence, it is imperative for business organizations to consider the strategic actions of social responsibility, which can result in positive outcomes in both the areas, economic as well as social, thereby fulfilling the objectives of the firm”.

**Table 5.3 :Factor 3- Corporate Philanthropy**

S.No.	Statements	Factor Loading
1.	I understand that main items of CSR agenda are Charity and Philanthropy	.755
2.	I believe that CSR is a Strategic Initiative	.713
	Total Factor Loading	1.468

This factor comprises of two loaded variables in business scenario, CSR practices have a bearing on charity and philanthropy and they are the tool of Strategic initiative as has been shown in table 4.6.3. So, based on the variables this factor is labeled as Corporate Philanthropy (explained 6.953 percent of the variance). Porter and Kramer (2002) recommend a system of corporate giving guided by logical economic decision-making intended to isolate and reap the advantages out of philanthropic activities. Porter and Kramer, for instance, offer a succession of screens for contribution managers, which can be employed to assess the potential strategic leverage and existing opportunities through philanthropic activity—the objective behind this is to make the managers think beyond the ideas of communal obligations and to convert them into effective “strategic giving” (2002: 67). With the help of their philanthropic activities, organizations can improve their “competitive context”—the quality of the business environment where they operate. Social and economic objectives can be balanced, context can be improved and a firm’s long-term business prospects can be improved by using philanthropy. This confusion results in making many organizations strategic in their

philanthropy. Nevertheless, what is considered as “strategic philanthropy” today is almost never actually strategic, and it is seldom particularly effective as philanthropy. The companies use philanthropy more either for building public relations or for advertising, improving a firm’s reputation or brand through cause-related marketing or other high-profile sponsorships.

**Table 5.4 : Factor 4: Competitive Advantage**

S.No.	Statements	Factor Loading
1.	I feel that CSR as a source of Competitive Advantage	.729
	Total Factor Loading	.729

This factor is based on a variable related to Competitive Advantage. Considering the nature of this variable, this factor is labeled as Competitive Advantage (explained 6.611 percent of the variance) as displayed in table 4.6.4. According to Ashley (2002), in the present business scenario, “CSR is a source of competitive advantage that firms should use in order to augment their competitiveness and get better results”. Barney (1991) argues that “competitive advantage can be created through the execution of strategies that add value and can be advantageous to one company when another company is unable to do so”. A company can gain Competitive Advantage either with the help of its internal resources or with a group of internal resources. The competitive advantage, which is the outcome of social responsibility, can be seen through the direct effect of its resources. This results in enhanced standing and repute, being able to withhold efficient employees and motivate them, holistic value, better economic performance provided by a balance between social responsibility and corporate policies, novel and competent projects, improved environmental performance, improved social performance and progress in organizational working.

**CONCLUSION**

The concept of CSR as being integral to their organizational culture for improving awareness in employees and for use as performance guideline. This research revealed that the key factor affecting employees’ attitude and approach towards CSR policy as well as their perceptions and values, is organizational culture. The study found that the Service sector companies need to converse with the stakeholders, specifically the employees, so as to bring about awareness and understanding to guarantee performance according to the policy. In this research, the level of employees’ perceptions interrelated in the same lines with the level of expectations. Thus, organizations are suggested to exhibit tangible actions on their CSR role and communicate their CSR policy and execution to the employees. It is also established that employees desire to recognize the management’s decision and expect just treatment and care according to the law. The organization’s capacity to fulfill these demands will reinforce employees’ spirit of belonging and engagement, which is the chief force behind successful CSR. This is sustained by the research, which demonstrated that CSR activities have positive correlation with employees’ perceptions. Likewise, this research proved that use of CSR concept is advantageous for developing employees’ perceptions and enhance company’s efficiency. This is in keeping with the research, which showed positive correlation between CSR capacity, and the firm’s image as well as the capability to bring positive societal change.

The study serves as the basis for researchers and experts for more inquiry into the specific areas pertaining to improvement in perception level related to CSR, in Service sectors. It has been found from this investigation that employee’s understandings of CSR activities could be viewed related to ethics and corporate reputation. Furthermore, the employee perceives that embracing CSR does not seem to do any harm to economic performance and is certainly related to the reputation of the establishment.

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**Table 1: Normality of Service Sector Data**

**One-Sample Kolmogorov-Smirnov Test (Service Sector)**

		VAR00001
N		175
Normal Parameters <sup>a</sup>	Mean	64.8914
	Std. Deviation	6.75471
Most Extreme Differences	Absolute	.196
	Positive	.089
	Negative	-.196
Kolmogorov-Smirnov Z		2.594
Asymp. Sig. (2-tailed)		<b>.327</b>
a. Test distribution is Normal.		

**Table 2 -Service Sector Reliability Statistics**

<b>Cronbach's Alpha</b>	<b>N of Items</b>
<b>.774</b>	17



Rotated Component Matrix <sup>a</sup>								
	Raw				Rescaled			
	Component				Component			
	1	2	3	4	1	2	3	4
Social Initiatives	.576	-.199	-.128	.477	.631	-.218	-.141	.523
Strategic Initiative	-.009	.510	.427	.538	-.010	.529	.444	.558
Charity cent Philanthropy	.063	.325	.437	.548	.072	.370	.497	.623
Profitability	-.154	.900	.028	-.084	-.151	.879	.027	-.082
Competitive Advantage	-.168	.592	.762	.008	-.154	.543	.699	.008
StockMarket Performance	-.176	.466	.600	.155	-.203	.537	.692	.179
Range of CSR	.140	.029	.078	.450	.187	.039	.104	.601
Operating Efficiency	.101	-.030	.443	.059	.150	-.045	.659	.087
Brand Image	.499	.179	.128	.166	.763	.273	.196	.253
Employee Satisfaction, Morale	.553	-.021	.140	-.113	.694	-.027	.176	-.142
Reactive Strategy	.033	.818	.149	.111	.034	.828	.151	.112
Community Relations	.669	-.124	.008	.152	.828	-.154	.010	.188
Economic Bottom Lines	.411	-.180	.254	-.349	.517	-.227	.319	-.439
Social Bottom Lines	.639	-.181	-.123	.114	.793	-.224	-.153	.142
Environmental Bottom Lines	.568	-.014	-.043	-.058	.799	-.019	-.060	-.082
Too Many Objective	-.208	.578	.078	.173	-.232	.645	.087	.193
Positive Social Change	.547	-.191	-.047	.164	.730	-.255	-.062	.219
Extraction Method: Principal Component Analysis.								
Rotation Method: Varimax with Kaiser Normalization.								
a. Rotation converged in 7 iterations.								