Peer Effect on Corporate Social Responsibility: Investigating Moderating Role of Business Group Affiliation, State Ownership, and Firm Size

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ABSTRACT

This study explores a firm’s response to institutional pressure from industry peers on their Social community spending. Social community spending is symbolic of the fulfillment of a firm’s corporate social responsibility (CSR). The authors hypothesize that mimetic isomorphism occurs among firms in an industry and organizational characteristics, i.e., business group affiliation, ownership status (state-owned versus private), and firm size strengthen or weaken the influence of industry peers. The authors test the propositions on a pooled time-series cross-sectional data of firms in India, with 3,307 observations from 2009-2017 using Generalized Least Squares (GLS) random-effects model. The findings suggest industry peers have a positive influence on a firm’s SCS, and this effect is stronger for state-owned enterprises and large firms and weaker for a business group affiliated firms which further aggravates with group size. This article establishes the positive role of the industry association in driving its member firm’s SCS and offers an understanding of the contingencies in the above relationship.

KEYWORDS

Business Group Affiliation (BGA), Corporate Social Responsibility (CSR), Firm Size, Institutional Theory, Isomorphism, Moderation, State-Owned Enterprise (SOE)

INTRODUCTION

Firms often engage in Corporate Social Responsibility (CSR) to gain legitimacy (York et al., 2015, Chang et al., 2019) and manage the flow of critical resources (Shnayer et al., 2016). CSR also helps firms overcome institutional voids and reduce environmental uncertainty (Husted & Allen, 2006; Ioannou & Serafeim, 2012). Other than the external antecedents, prior literature identifies several internal factors that drive a firm’s CSR choice, such as financial performance, availability of slack resources and board orientation (Giannarakis et al., 2014; Moura-Leite et al., 2012). Although previous research provides us rich insight into the determinants of CSR, the research in this field could benefit from an understanding of peer influences on the CSR behavior of firms.

Institutional theory (DiMaggio & Powell, 1983) propounds that a firm’s choice of appropriate behavior is guided by their peers’ choice. Further, it proposes isomorphism as a mechanism that causes homogenization of organizational practices (Powell & DiMaggio, 1991). The extant research on CSR in conjunction with isomorphism as an antecedent to it has primarily focussed on the extent

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of sustainability disclosure (Carbone et al., 2012; Cormier & Magnan, 2017; Perez-Batres et al., 2010), CSR performance (Husted et al., 2016), and environmental certification (Dubey et al., 2017; Emilsson & Hjelm, 2004; Iatridis et al., 2016). Thus, our understanding of institutional influences that drive CSR spending remains limited. Marquis and Tilcsik (2016) guide us in this direction by highlighting the role of institutional equivalence driving corporate philanthropy. However, our study differs from their study on two aspects: 1. We have looked into the variation in peer influence across organizational forms by analyzing the moderating role of business group affiliation and state ownership. 2. Our research is set in an emerging country context where the scope and conceptualization of CSR are much different from the developed country and calls for further investigation. Further, numerous studies have examined the direct effect of business group affiliation and firm size on CSR spending, however, how these factors interact with other influencing factors is sparsely addressed in the CSR literature.

Overall, this study tries to look into the macro influence of industry peers on a firm’s CSR and further delves into the meso-level factors, such as business group affiliation, ownership status (state-owned enterprise versus private), and firm size affecting the above relationship. We have conceptualized CSR using an objective measure of social community spending (i.e., CSR spending). Invoking the sociological perspective of institutional theory (DiMaggio & Powell, 1983), we argue that a focal firm’s social community spending will be positively influenced by its industry peers’ social community spending. Additionally, industry peer pressure on a firm would differ between business group affiliated firms (BGAs) and non-BGAs, and between state-owned enterprises (SOEs) and private firms. Finally, due to the higher visibility of large firms, they will be subject to higher isomorphic pressure compared to small firms. We test our predictions using a proprietary dataset, pooling time series-cross sectional data (3,307 firm-year observations) of social community spending by firms in India from 2009-2017. Further, we do robustness analysis for business group affiliated firms. Figure 1 illustrates the conceptual model.

HYPOTHESIS DEVELOPMENT

Peer Pressure and Social Community Spending

Based on the institutional theory, Di Maggio and Powell (1983) explain that as the organizational field matures, firms become homogeneous in practices due to isomorphic pressures. Isomorphism is the existence of similar processes or systems across organizations, due to either imitation or operation of firms under similar environmental constraints. The institutional theory provides a theoretical foundation to understand stakeholder needs and macro-level factors driving CSR. It helps create an organization-environment fit. Broadly, there exist three mechanisms by which isomorphic pressure occurs: 1. Coercive Isomorphism 2. Mimetic Isomorphism and 3. Normative Isomorphism (Di Maggio & Powell, 1983). Coercive isomorphism results from legitimacy concern and dependency of organizations on formal and informal institutions, such as regulatory bodies, governments, law tribunals, and other organizations. Mimetic isomorphism arises in the case of an uncertain environment (Hadani & Coombs, 2015). Many times, to overcome institutional voids, new firms replicate practices of existing successful firms. And, normative isomorphism stems from professionalization.

Existing literature highlights isomorphism among multinational corporations on social reporting initiatives, and membership to organizations, such as the United Nations Global Compact (Carbone et al., 2012; Perez-Batres et al., 2010; Shabana et al., 2017). In this line, country of origin (Van der Laan Smith et al., 2005), culture, and status of law, etc. are some of the factors identified to generate isomorphic pressures. Cormier and Magnan (2017) found that in the case of corporate environment disclosure, a firm’s tendency to imitate its reference group is weakened by corporate governance, environmental performance, and public media exposure. And, firms’ dependence on financial resource providers leads to disclosure similarity tendency among firms.
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