CHAPTER 3 RESEARCH DESIGN & FRAMEWORK

3.1 INTRODUCTION

The Research Design & Framework chapter discusses Corporate Social Responsibility (CSR) and Financial Performance relationship and overview of various theories in literature demonstrating the benefits of CSR and its relationship with Financial Performance. The chapter also discuss the research methodology techniques in detail which are extensively used in the analysis of the research data.

Kothari (2004) explains that research design is required for the following reasons

1) Making Research efficient
2) Maximum information with minimum spending of effort
3) Advance planning on the methods and techniques to be used
4) Firm foundation of the research

3.2 CORPORATE SOCIAL RESPONSIBILITY (CSR)

Sweeney (2007) proposed a model to study the relationship between CSR and Financial Performance. The model links CSR to its benefits including enhanced employed attraction, motivation, retention, customer attraction & loyalty, access to capital and firm reputation. In his method he also links the relationship between each of these benefits and financial performance.
imprint Blue paper (2010) on “CSR, Good for Business”, narrates the story of Ernst & Young’s CSR strategy tied to the environment and finding greener practices in a paper-heavy industry. The company implemented recycling programmes (toner cartridges), employee volunteer opportunities and transitioned to using recycled goods when possible. As reported by Ernst & Young (2010), the end result has been a more positive brand image, increased employee morale, environmental protections and big savings of about $10000 per month. The paper suggest following as the tips for the successful CSR: Align the cause with the business, Keep the focus broad, Make sure the strategy comes before the reporting, Outline the strategy clearly, Communicate clearly, Don’t overlook volunteerism, Set some ground rules. Another important factor is to communicate the CSR plan to the internal and external audiences. The CSR messages should be genuine, positive and must have a logic to link to the business overall goal and marketing. CSR message should be consistent and must answer the question “why” to buy-in from the audiences. Some companies include CSR to every piece of marketing material both internal and external.

Evans and Davis (2008) states the employee intention to pursue the opportunity in an organisation depends on the image of the organisation. Gildea (2001) in his study quotes that employees accept the offer in an organisation by considering ethics as one of the decision criteria. Backhaus et al. (2002) through his study proved CSR positively impacts the employee attractiveness towards the company.

Roberts et al. (2002) confirms that CSR is the key for access to capital in his study. Baron (2008) also reiterates that investors prefer only company which demonstrates high level of CSR. Sweeney (2009) quotes long term investment is required for the growth of an organisation in terms of equity or debt. Johnson et al. (1999) narrates that the ability to access capital has a positive impact on the success of the organisation.
Sweeney (2009) states according to Curran (2005) many firms started tagging themselves as socially responsible firms. They started publishing CSR reports annually. Sweeney also cautions that the firm may over report on CSR in order to enhance the firm’s reputation. According to Pfau et al. (2008) firms fail to practice CSR but only communicate. Sweeney (2009) points out in his study on CSR that advertising CSR has increased in recent years. Lerner (1988) has long-established this statement in his study that CSR activities are considered important in industries, where the advertising to sales ratio is higher. Hence it proves that CSR can be considered as a strategy to improve firm’s reputation.

Pivato et al. (2008) proved customer sensitivity on the company and its products is based on the perception that a company is socially responsible. Sweeney (2009) quotes many researchers proved through their study that alongside many factors customers are more interested in the social behaviour of the firm. The researchers include Dawkins and Lewis (2003), Schiegel & Pochtrager (2003), Hopkins (2003) and Knowles and Hill (2001).

### 3.3 CORPORATE SOCIAL RESPONSIBILITY THEORIES

In the meta-study by Orlitzky et al. (2003) details all types of stakeholder theories, which includes the Instrumental stakeholder theory, stakeholder agency theory and multiple stakeholder theory. He quotes the various stakeholder theory findings as follows, Clarkson (1995) stakeholder theory states that the satisfaction of various stakeholder groups is influential for organisational financial performance. Instrumental Stakeholder theory by Clarkson (1995), Bradford Cornell and Shapiro (1987), Donaldson and Preston (1995), freeman (1984), Mitchell et al. (1997) all suggest a positive relationship between CSP and CFP. Stakeholder Agency theory by Hill & Jones (1992) and Jones (1995) argues on the bilateral stakeholder management relationships. Multiple stakeholder theory by Freeman and Evan (1990) argues organisational efficiency can be increased by adaptation to the external demands.
Sweeney (2009) explains the shareholder theory in detail in his thesis related to CSR and Financial Performance relationship. He quotes according to Cochran (1994) Shareholder Theory; firms must be handled in the interest of its entire shareholder. He clarifies that the shareholders are the main constituents to the business and their main concern is profit maximisation. So any Corporate Social Responsibility activities leads to expenditure without any profit maximisation are considered as violation of the shareholders theory.

There has been much justification in the past for the shareholder theory as quoted in his thesis that it increases the long term survival, increases success in the long term. Moore (1999) justifies the shareholder theory by explaining the objective of equity investments. According to him shareholders derives the ownership of the company based on their equity holding in the company and the objective of the investment is to only increase the market value of the share.

Hence any company failing to do so is considered not meeting the objective of the shareholders. Sweeney (2009) also quotes in his thesis that the shareholders theory should not be misinterpreted as that the theory suggests that anything can be done to make profit. The researcher also cautions that shareholders theory is against spending corporate funds for social use. The researcher concludes that the shareholder theory is been challenged as that companies cannot be run only in the interest of their shareholders.

The European Commission (2002) has identified ‘CSR’ as where companies “integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”.

Malte Kaufmann & Marieta Olaru (2012), states a considerable focus is being set to CSR after the CSR strategy set forth by the European commission in 2011 & by many scientific publications. Each member state is Europe is set to update their CSR strategy and also have some strict regulations.
CSR activities are not only charitable in nature but they also contribute to increased employee and customer satisfaction, positive image of the Company and other soft factors accounting for business success. He quotes Business Performance is of key interest for the top management of a company. Business performance can be characterised as “well” or “poor”. “Success” is considered to be a positive term pertaining to the overall turnout of the firm.

“CSR is a difficult concept to pin down” as quoted by Jeremy Moon (2004) because of it is overlapping with many related concepts like: corporate citizenship, environmental responsibility, social and environmental accountability; the triple bottom line, business ethics and corporate accountability and sustainable business (Ray Broomhill, 2007).

Matten Dirk & Jeremy Moon (2004) explains the list of instance in the history of CSR being stressed in the global economy includes; Rise of corporation in late 19th century, era of robber barons in US, Great depression in 1930, post war labour government in UK, growth of transnational corporation, UN establishing code of conduct for the activity of TNC’s, other multilateral agreements, global restructuring in 1980, corporate scandals in 1990, etc. So he points out that the NGO’s, trade unions, human rights organisation and environmental groups started demanding for greater corporate social responsibility.

List of corporate stakeholders according to the Australian Corporations and Market Advisory committee discussion on CSR (ACF, 2005)

<table>
<thead>
<tr>
<th>Group</th>
<th>Contributions</th>
<th>Relationship</th>
<th>Corporate obligations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders</td>
<td>- Financial capital</td>
<td>Primarily legal</td>
<td>Dividends and/or increase in capital value consistent with other</td>
</tr>
<tr>
<td></td>
<td>- Assumption of top risk band</td>
<td>(Corps Act and organizational documents); may</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Ultimate</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>management</td>
<td>also be contractual</td>
<td>obligations</td>
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<tr>
<td><strong>Table 3.1 (Continued)</strong></td>
<td></td>
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</tbody>
</table>
| **Financial Investors** | - Financial capital  
- Assumption of risk  
- Expertise, sometimes | Primarily contractual | Repayment of interest and capital |
| **Directors** | - Management oversight | Legal and contractual | Compensation |
| **Employees** | - Intellectual and physical labour  
- Experience, initiative, commitment, continuity | Contractual (individual or collectively) | Fair compensation and conditions; respect for human rights; safety; employment security consistent with other obligations |
| **Customers and end consumers** | - Intermediate and ultimate demand for products and services | May be direct and contractual, or mediated through retailers; also subject to legal regulation | Duty of care; fair competition and trade practices |
| **State / national communities in which company operates** | As above, plus:  
- national security  
- regulation  
- license to operate  
- assumption of residual risk in insolvency | Implicit in license to operate; legal regulation | Compliance with laws, taxation, responsible use of environmental carrying capacity and support for community |
<table>
<thead>
<tr>
<th>Global Community</th>
<th>- international trade - environmental carrying capacity (biodiversity, stable Climate, etc.)</th>
<th>Almost wholly implicit; mediated through national governments</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Responsible use of greenhouse and other global environmental carrying capacity; fair trading conditions</td>
</tr>
<tr>
<td>Suppliers</td>
<td>- business inputs</td>
<td>Primarily contractual</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Payment for inputs; fair competition and trade practices</td>
</tr>
<tr>
<td>Local communities in which company operates</td>
<td>- local security - conducive business environment - social, cultural and environmental amenities - environmental carrying capacity (biodiversity, land, renewable and non-renewable resources, ecosystem services) -subsidies and other support - physical</td>
<td>Primarily informal and implicit; some local regulation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Compliance with laws, taxation, responsible use of environmental carrying capacity and support for community</td>
</tr>
</tbody>
</table>
Dr. Achim Dercks, Klaudia Huls (2012) evaluated 2000 responses distributed across manufacturing, construction industry, trade and service in Germany to understand the benefits of CSR. The findings include almost all companies have a strong and broad level of commitment, Sustainability as an important part of CSR, lowest score for introduction of CSR reporting obligations by European Union. Few major questions of the study was on Support for culture in the region, Promoting health care, Support for sport in the region, Advancing and qualifying employees to a particular extent, Supporting reconciliation of family and professional life.


<table>
<thead>
<tr>
<th>Hemphill ‘s Explanation</th>
<th>Carroll – Responsibility Pyramid</th>
<th>Windsor’s Societal Expectation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Be a good Corporate Citizen</td>
<td>Discretionary Responsibilities</td>
<td>Desired</td>
</tr>
<tr>
<td>Be Ethical</td>
<td>Ethical Responsibilities</td>
<td>Expected</td>
</tr>
<tr>
<td>Obey the law</td>
<td>Legal Responsibilities</td>
<td>Required</td>
</tr>
<tr>
<td>Be profitable</td>
<td>Economic Responsibilities</td>
<td>Required</td>
</tr>
</tbody>
</table>

Friedman (1970) is in favour of the three responsibilities of Carroll ie economic, legal and ethical but he was against the discretionary responsibility.

Tatjana Chahoud (2006) along with five other participants conducted an empirical study in India from February 2006 to April 2006. The group published the German Development Institute (GDI) report after the study. The empirical
survey was based on 39 interviews with companies and 21 stakeholder interviews and 11 background interviews. The objective was to assess the role of global compact in shaping CSR in India. The samples were taken from the industrial districts of Delhi, Pune, Bangalore and Chennai. The article also list down the 10 principles of the Global Impact. The ten principles of the global compact classified into four major heads

- Human Rights
- Labour
- Environment
- Anti-Corruption

<table>
<thead>
<tr>
<th>Classification</th>
<th>Number of principles</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Rights</td>
<td>2</td>
<td>“Businesses should support and respect the protection of international human rights”</td>
</tr>
<tr>
<td></td>
<td></td>
<td>“Not complicit in human rights abuses”</td>
</tr>
<tr>
<td>Labour</td>
<td>4</td>
<td>“Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining”</td>
</tr>
<tr>
<td></td>
<td></td>
<td>“The elimination of all forms of forced and compulsory Labour”</td>
</tr>
<tr>
<td></td>
<td></td>
<td>“The effective abolition of child labour”</td>
</tr>
<tr>
<td></td>
<td></td>
<td>“The elimination of discrimination in respect of employment and occupation”</td>
</tr>
<tr>
<td>Environment</td>
<td>3</td>
<td>“Businesses should support a precautionary approach to environmental challenges”</td>
</tr>
<tr>
<td></td>
<td></td>
<td>“Undertake initiatives to promote greater Environmental Responsibility”</td>
</tr>
</tbody>
</table>
Table 3.3 (Continued)

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<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Anti-Corruption</td>
<td>“Encourage the development and diffusion of environmentally friendly technologies”</td>
</tr>
<tr>
<td></td>
<td>“Businesses should work against corruption in all its forms, including extortion and bribery”</td>
</tr>
<tr>
<td>European Commission definition of CSR is a very useful reference to understand the CSR triangle concept.</td>
<td></td>
</tr>
<tr>
<td>EU Commission (2001) defines CSR as “CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing ‘more’ into human capital, the environment and the relations with stakeholders. CSR should nevertheless not be seen as a substitute to regulation or legislation concerning social rights or environmental standards, including the development of new appropriate legislation.”</td>
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</table>

![Figure 3.1 CSR Triangular Concept](image-url)

Figure 3.1 CSR Triangular Concept
Mohan (2001) supported the theory that CSR is no more only a self regulation activity and the global CSR agenda is the shift from self regulation to multi stake holder approach. He also stated that as early as 19th century businessmen manifestation includes social responsibility.

Aida Bagic and Lana Narancic (2004) has listed down the key benefits of CSR

<table>
<thead>
<tr>
<th>Table 3.4 CSR Benefits</th>
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<tbody>
<tr>
<td><strong>Benefits</strong></td>
</tr>
<tr>
<td>Reputation, Brand and Risk Management</td>
</tr>
<tr>
<td>Competitiveness and Market Positioning</td>
</tr>
<tr>
<td>Employee Recruitment, Motivation and Retention</td>
</tr>
<tr>
<td>Operational efficiency</td>
</tr>
<tr>
<td>Access to Capital and Investor Relations</td>
</tr>
</tbody>
</table>

Hasan (2009) in his thesis on determinants of relationship of corporate social performance and financial performance explains the below figure in detail to explain the slack resource theory and good management theory.
3.4 RESEARCH METHODOLOGY

Confirmatory Factor Analysis: CFA is a measurement model having visual representations of the constructs, variables and its interrelationship. Confirmatory Factor Analysis provides the measure of the reliability and validity of the constructs. In general CFA helps to verify whether there is an empirical support for the proposed theoretical model.

Structural Equation Modelling: SEM is a structural model depicts set of dependence relationships linking to the hypothesised model constructs. SEM determines whether there is a relationship between the constructs. SEM along with CFA helps to accept or reject the theory.

CFA provides the answers for the following questions based on the quantitative measures that help to evaluate the reliability and validity of the model.
1) Does the indicator variables measure the same concept
2) Do the constructs measures distinctly different concepts
3) Are the constructs reliable
4) Is the inter-construct correlation consistent with the theory under study

Convergent validity, which are measured by shared variance, test for unidimensionality, uncorrelated errors are the quantitative measures to check whether the indicator variables measure the same concept. Discriminant validity helps to validate whether the constructs measure distinctly different concepts. The Average shared variance (AVE) must be larger than the inter-construct correlations. Cronbach Alpha is generally used to test the reliability of the constructs. Nomological validity is used to check whether the inter-construct correlation is consistent with the theory under study. The basic assumption of CFA is no cross loadings and unidimensionality. Cross loading is nothing but one variable of the construct is related to another construct.

There are three basic elements of CFA-SEM, as follows

1) Constructs
2) Relationships
3) Indicators

Constructs can be either exogenous or endogenous. Exogenous variable/construct acts as a predictor for other constructs/variables in the model. Exogenous constructs only have arrows leading out of them and none leading into them. Endogenous variable/construct is the outcome variable in at least one causal relationship. Endogenous variable/construct has one or more arrows leading into them. Exogenous construct are latent, multi-item equivalent of independent variables that are not influenced by other variables in the model, while Endogenous constructs are latent, multi-item equivalent to dependent variables. Exogenous construct use a variate (linear combination) of measures to represent the construct, which is the independent variable in the model. Endogenous constructs are affected by other variables in the theoretical model.
Exogenous constructs

![Diagram of Exogenous constructs]

Endogenous constructs

![Diagram of Endogenous constructs]

Key: C1 & C2 stands for construct

**Figure 3.3 Types of Constructs**

Relationship can be of three types. It can be recursive in nature ie arrows goes one way or non-recursive in nature ie arrows goes both ways or correlational in nature ie arrows is curved with pointed heads on both the ends.

Indicators can be either formative or reflective in nature. If the arrow is directed from observed variables to unobserved constructs, it is considered as formative indicator. If the arrow is directed from unobserved construct to observed variable the indicator is reflective in nature.

In general variables can be either observed or unobserved variable. Observed variable is also known as indicator or manifest variable. Unobserved variable is also known as latent variable. Observed variable data is collected from the respondents by various data collection means such as questionnaire, interview schedule, interview, etc. Hence observed variable is called as measured variable. Unobserved variable cannot be measured but can only be approximated by observed variable.

The constructs are represented in the model as loadings and path estimates. Loading actually represents the relationship from constructs to variables. Path estimates denote the relationship between the constructs.
Communality can be defined as the total amount of variance a measured variable has in common with the construct. Good measurement exercise advocates that each measured variable must load on only one construct. In CFA, the communality is denoted as the “squared multiple correlations” of a measured variable. The CFA and EFA represent the similar idea on communality. Factor loadings are squared to get the communality of an indicator variable.

Congeneric measurement model is a model consisting of several unidimensional constructs of cross-loadings presumed to be zero. There is no covariance within or between construct error variances; ie, they are fixed to zero.

Estimated covariance matrix is abbreviated with $\Sigma_k$ and it encompasses the predicted covariance’s between all indicator variables involved in a SEM constructed on the equations that symbolize the hypothesized model.
Fixed parameter is specified by the researcher. Generally it is specified as zero. Some instances they are specified with actual value example: 1.0.

Free parameter is a parameter estimated by the structural equation program to represent the strength of a specified relationship. Free parameter may occur in the measurement model ie to denote loadings of variables to constructs & also in the structural model ie to denote relationships among constructs.

Goodness-of-fit is abbreviated as GOF. GOF is a measure “indicating how well a model reproduces the covariance matrix among the indicator variables”.

Maximum likelihood estimation is abbreviated as MLE. MLE is an estimation method commonly employed in structural equation models. It is an alternative to “ordinary least squares “used in multiple regressions. MLE is a technique that improves parameter estimates. MLE minimizes the differences between the observed and estimated covariance matrices, as a procedure.

Observed sample covariance matrix abbreviated as capital letter “S” is the input matrix for SEM estimation. Observed sample covariance matrix comprised of the observed variances and covariance’s for each measured variable.

Construct reliability is abbreviated as CR. CR is a “measure of reliability and internal consistency based on the square of the total of factor loadings for a construct”.

Construct validity is made up of four components namely: convergent validity, nomological validity, discriminant validity, and face validity. Construct validity “measures the extent to which a set of measured variables actually represent the theoretical latent construct”.

Convergent validity “measures the extent to which indicators of a specific construct ‘converge’ or share a high proportion of variance in common”.

Discriminant validity “measure the extent to which a construct is truly distinct from other constructs”.

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Face validity “measure the extent to which the content of the items is consistent with the construct definition, based solely on the researcher’s judgment”.

Nomological validity is “tested by examining whether or not the correlations between the constructs in the measurement theory make sense. The covariance matrix Phi (Φ) of construct correlations is useful in this assessment”.

Parameter is a numerical representation of some characteristic of a population. In CFA/SEM, “relationships” are the characteristic of attention that the modelling measures will generate estimates for. Parameters are “numerical characteristics” of the SEM relationships. In Multiple regressions, regression coefficient is the comparable term for parameter.

Average Variance extracted is abbreviated as AVE. AVE is a “summary measure of convergence among a set of items representing a construct. AVE is the average percent of variation explained among the variables”.

There are two measurement theories in CFA-SEM. They are Reflective Measurement Theory & Formative Measurement Theory.

<table>
<thead>
<tr>
<th>Table 3.5 Measurement Theories</th>
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<tbody>
<tr>
<td>Reflective Measurement Theory</td>
</tr>
<tr>
<td>The assumption is that the latent constructs cause the measured indicator variables</td>
</tr>
<tr>
<td>Error is a outcome of the inability of the latent constructs to fully explain the indicators</td>
</tr>
<tr>
<td>The arrows are drawn from the latent constructs to the measured indicators</td>
</tr>
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</table>
To assess the model validity, there are two broad approaches; Goodness of fit indices (GOF), Evaluate the construct and reliability validity.

Generally there are 3 types fitness measure; Absolute Fit Measure, Incremental Fit Measures and Parsimony Fit Measures.

1. Absolute Fit Measures “indicate how well the estimated model reproduces the observed data”.

2. Incremental Fit Measures “indicate how well the estimated model fits relative to some alternative baseline model”. “Observed variables are uncorrelated “is one of the common assumptions of the Incremental Fit Measures.

3. Parsimony Fit Measures indicate if the model you specify is parsimonious ie specifying simpler model with fewer estimated parameter paths

SEM has no single statistical test or thumb rule that best describes the “strength” of the model’s predictions. Researchers in the past have developed different types of measures that in combination can help to assess the model fitness. For example the $\chi^2$ and the $\chi^2 / df$ (normed Chi-square), One goodness of fit index (e.g., GFI, CFI, NFI, TLI), One badness of fit index (e.g., RMSEA, RMSR), etc. In general the fit depends on the model characteristics like the sample size and model complexity. Example: Simple model with small samples must have very strict standards compared to simple models with larger samples.

SEM basically test three criteria which includes Goodness of Fit, ie estimated covariance matrix is equal to the observed covariance matrix, validity & reliability of the model, significant and meaningful structural relationship. The primary measure of GOF is the Chi-square statistic. Since you do not want the matrices to be different, the null hypothesis is “No difference in the two covariance matrices”. Researcher accepts the null hypothesis if the Chi-square value is >.05.
Breakwell et al (1995), Bernard et al (2004), Trochim (2002), Kvale et al (1996) explains the features of Interview schedule as follows Interview schedule is very similar to questionnaire except the fact that it is filled by the researcher or the enumerators. Enumerators are appointed by the researcher for the purpose of collecting the responses from the respondents. Enumerators are trained by the researcher on the topic of the research. Researcher/Enumerators explain the questions which the respondent’s find difficult to understand. The respondent’s or the enumerator or researcher fills the answers for the questions. Enumerators need to be smart to cross examine if necessary to bring out the fact. Researcher must select enumerators who are sincere and honest to the task assigned.

Since Interview Schedule is similar to questionnaire there construction steps of an interview schedule are very similar to the questionnaire. The interview schedule must be rigorously reviewed by the researcher not only on the context but also on the format and language, etc. The important evaluation criteria include

1) Clarity on the question
2) Understandability
3) Relevance
4) Appropriateness
5) Validity
6) Logical order
7) The length of the question
8) Language
9) Spell Check
10) Margins, spacing, fonts

In the light of above evaluation, the questions must be revised thoroughly.

A good interview schedule must have some basic characteristics which include
1) No open ended questions  
2) Unidimensional  
3) Clear and unambiguous  
4) Relevant questions  
5) Time required is less to answer  
6) No embarrassing questions  
7) Each question is restricted to single idea  
8) Number of questions is limited  

Advantage of an interview schedule  
1) Higher response rate  
2) Helps to get the response for illiterate respondent’s  
3) For complex topics  
4) Explanations can be provided to get the facts as response  

Disadvantage of an interview schedule  
1) Expensive  
2) Enumerator can create confusion due to lack of knowledge or training  
3) Time consuming  
4) Not possible for very large sample  
5) Interviewer can influence the answers  

Interview schedules can be considered to yield reliable results. Good example of an interview schedule is the population census.  

3.5 HYPOTHESIS  
Kothari (2004) defines hypothesis as “mere assumptions or supposition to be proved or disproved”. Based on the extensive literature survey, research question, research objective, research questions and research model 12 hypotheses were framed as below. There are totally 5 hypothesis related to CSR and its relationship with 5 different benefits; employee attraction and retention, customer loyalty, reputation, access to capital and financial performance. There are 4
hypotheses to verify the relationship between the benefits of CSR and financial performance. There are 3 hypotheses to verify the perception of CSR based on the demographic variable.

H1 – There is a significant positive relationship between CSR and employee attraction & retention

H2 - There is a significant positive relationship between CSR and customer loyalty

H3 - There is a significant positive relationship between CSR and reputation

H4 - There is a significant positive relationship between CSR and the ability to access capital

H5 - There is a significant positive relationship between employee retention and attraction and the financial performance

H6 - There is a significant positive relationship between customer loyalty and the financial performance

H7 - There is a significant positive relationship between reputation and the financial performance

H8 – There is a significant positive relationship between access to capital and the financial performance

H9 – There is a significant positive relationship between CSR and the financial performance
H10  –  There is a significant difference in perception of CSR based on the turnover

H11  –  There is a significant difference in perception of CSR based on the Number of employees.

H12  –  There is a significant difference in perception of CSR based on the Years of existence in the location.

3.6 RESEARCH MODEL

Below is the research model which explains the relationship under study. The relationships include the following

1) CSR and Employee attraction & retention
2) CSR and Customer Loyalty
3) CSR and Reputation
4) CSR and Access to capital
5) CSR and Financial Performance
6) Employee attraction & retention and Financial Performance
7) Customer Loyalty and Financial Performance
8) Reputation and Financial Performance
9) Access to capital and Financial Performance

The interview schedule used in the study helps to collect data for various items, which are present in the interview schedule in the form of questions. The subsets of some of these items are correlated, which signifies that they represent a common theme. The latent variables are immeasurable in nature as they are combination of more than one item (explained in detail in the next chapter). Latent Variable is a statistical measure of correlated response variables.
It reduces the number of variables into one single variable. The each of the latent variable in the model is made up of more than one correlated response variable (item). For example: The employee attraction & retention latent variable is made up of four items. The access to capital latent variable is made up of three items. Hence these latent variables are super-ordinate to the items, on which it is formed. The basic reasons for having latent variables in the models instead of individual items include that this kind of model reduces the number of variables (items) into few latent variable. The second reason is that the latent variables can bring down the biasing effects of errors during the measurement.

Hence these kinds of models are more accurate. The third reason is that the latent variable based model is considered more appropriate theoretically as they include response variables and simpler in nature. These models has to go through regress statistical techniques which includes factor analysis, simultaneous equation models, standard growth curve, errors in variables, all forms of classical regression, uni-variate & multi-variate linear models and hypothesis tests on means and variance of the experimental design. There are many articles & thesis published to explain the concept of latent variables and also its use in the measurement model and the structural model of the SEM analysis.

3.7 CONCLUSION

This chapter outlined the various theories which formed as the basic input for the scope of thesis. The final out of this chapter is to list down the Hypothesis and the research Model for the study. The chapter also discussed the methods to be employed for the instrument development and techniques used for data analysis.