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Corporate social responsibility and corpoate political activitiy: what does data tell us?

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Abstract

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Abstract

This study investigates the dynamic causality relationship between Corporate Social Responsibility (CSR) and the Corporate Political Activity (CPA). We employed the Vector AutoRegression (VAR) model in the Generalised Method of Moments (GMM) framework and considered all time-invariant characteristics of every organisation. We studied a sample consisting of 100 of the World Most Admired Companies (WMAC) that listed in the Fortune list in the period ranging from 2007 to 2016. This study offered empirical evidence that showed that the CPA negatively affected the CSR; however, an increased CSR did not guarantee an increase in the CPA. The results of this paper were in direct contrast to the notion based on the hypothesis of the virtuous circle that described a positive correlation and mutual reinforcement between the CPA and CSR.

1. Introduction

The relationship between the organisation's Corporate Social Responsibility (CSR) and Corporate Political Activity (CPA) has not appropriately well studied. Many 'political CSR' based studies have observed a connection between the CSR and the political theory (Matten and Crane 2005; Rajwani and Liedong 2015; Scherer and Palazzo 2011) and argued that the CSR could be 'political' as it focused on the firm's assumptions related to the governmental responsibilities and role in the global context wherein a weak governance prevailed. Despite this fact, many organisations operated in a political environment and interacted or influenced the governmental decision-makers, i.e., participated in lobbying. Intensely few researchers have studied the dynamic causality occurring between CSR and CPA (den Hond et al. 2014). The CSR primarily focused on the environmental and social responsibilities of the organisations (Hadani, Doh, and Schneider 2018) towards the community. With regards to the CPA, the organisations adapted the governmental policies in a manner which suited their purpose (Hillman, Keim, and Schuler 2004) and favoured strategies which were directed at the appointed politicians or officials (Hillman and Hitt 1999). These included the contribution of the Political Action Committee (PAC), political directorship and lobbying (Doh et al. 2010).

In the relationship between the CSR and CPA, the virtuous cycle hypothesis described the propensity of the organisations, which cooperated with the government and committed themselves for making resource-related and philanthropic contributions and were associated with the government for implementing ethical codes (Luo and Bhattacharya 2006; Jing, Cui, and Li 2015). Very few studies determined if the CSR and CPA were aligned within the organisations (Beloe and Harrison 2007). These studies assessed the CPA and CSR independently (Anastasiadis 2014). However, some studies showed that the CSR and CPA were interconnected, with regards to the governmental responsibilities (Scherer and Palazzo 2007; Anastasiadis 2014). In this study has investigated the dynamic causality occurring between the CPA and CSR. For their purpose, they extended the study carried out by den Hond et al. (2014) and explored the causal connection between the CPA and CSR. We applied a longitudinal panel data design, along with the panel VAR analyses, for examining the decomposed and general links. This offered insight and considered CSR activities as a political act. By investigating the bidirectional relationship between the CPA and CSR, we aim to add to the political CSR literature as this study outlined the issues and opportunities that were related to the configurations regarding these concepts.

1.1 CSR enhances CPA

The resources that were acquired through the CSR activities of the organisation supported their political involvement, which further decreased their dependency on the financial donation as the political costs were reduced (den Hond et al. 2014). Furthermore, they developed solid and diverse connections with the society and the non-governmental organisations based on their CSR activities, which strengthened their political efficiency (in comparison to the organisations without any CSR activities) and improved their influence and position (den Hond et al., 2014; Rehbein 2015; Werner 2015). This was especially noted when the organisations used the appropriate information for communicating their issue position while contacting the government officials or politicians (Wang and Qian 2011). Furthermore, intensive CSR activities could improve the visibility and status of the organisations that offered polity connections for accessing the legislative and political decision-makers. Hence, the organisations having a high CSR reputation can access high political prospects (Schuler, Rehbein, and Cramer 2002; Wang and Qian 2011), which attracts the politicians and help the organisations fulfil their political activities (den Hond et al. 2014). Based on these arguments, we hypothesised that:

H1: CSR is positively correlated with the CPA.

1.2 CPA enhances CSR

Post et al (1983) observed that the CPA supported the scheme and the implementation of the outward engagement of the CSR activities. It was seen that the political activities of the organisations could improve the economic sustainability of the CSR activities (den Hond et al. 2014). Furthermore, any knowledge which helped them address the existing environmental and social issues with the help of the political connections could increase the organisation's CSR investments (Hillman and Hitt 1999; Peterson and Pfitzer 2009; den Hond et al. 2014). For example, the standards that were established for the inventive processes and products with the help of political connections decreased the associated regulatory and business risks, which led to the development of emerging and steady markets. These organisations would propose a few favourable CSR policies and expected results to the authoritative officials, thereby encouraging them to support such initiatives (Caulkin and Collins 2003; Bendell and Kearins 2005). After their approval, the authoritative figures would endorse the CSR activities, which increased the legitimacy and credibility of these organisations with regards to their CSR commitment. This legitimacy and credibility of the organisations can be improved with the help of solid relationships between the governmental agencies and organisations. Peterson and Pfitzer (2009) observed that these solid relationships could improve the ability of the organisations to address all societal issues related to the CSR commitment of the organisations. With the help of appropriate political support, the organisations can acquire and expand their resources for carrying out CSR activities. In this study, the researchers have postulated that the endorsement and knowledge derived from the political support could enhance the credibility and offer necessary opportunities to the organisations so that they could prioritise the development and economic sustainability of the CSR activities (Love and Kraatz 2009). We hypothesised that:

H2: CPA is positively correlated with the CSR.

2. Panel Vector Autoregression Model

The effects of endogenous and exogenous variables over one another pose complexities for the study to estimate the causality between CSR and CPA, particularly on the effect of one variable over another as well as the effects of multiple variables. Addressing that, the panel vector autoregression (VAR) model was applied for the estimation in a generalized method of moments (GMM) framework using Stata 15, which was previously introduced Abrigo and Love (2016) and Love and Zicchino (2006)[1]. In fact, the panel VAR model is highly relevant to the concurrent condition model. The orthogonal impulse response function (hereinafter IRF) has been applied in this study. As a rule, one variable's reaction (e.g. CSR) may generate a shock in another variable (e.g. an accurate assessment, estimation, and evaluation of CPA can be obtained by keeping the basic model's every single other variable consistent and by disregarding their progressions (shock)). This study focuses on the autoregressive panel VAR structure shown in Equation (1) without the loss of generality, disregarding the exogenous variables. Supposedly, the vector of k-endogenous variables and panel VAR of order p for company i at time t is Y_{it} = [CSR_{it},CPA_{it}]' forms the underlying structure of the panel VAR model. Equation (1) presents the reduced-form dynamic relationship of the endogenous variables:

$$\boldsymbol{Y_{it}= Y_{it-1}A_1+ Y_{it-2}A_2+ Y_{it-p+1}A_{p-1}+ Y_{it-p-1}A_p+ X_{it}B+ u_i + e_{it}} \quad \textbf{(1)}$$

$\boldsymbol{i} \in \{1, 2,\ldots 100\}, \boldsymbol{t} \in \{2007,\ldots 2016\}$

Where Y_{it} represents the (1 x k) vector of dependent variables; X_{it} represents (1 x l) vector for the exogenous covariates; u_i and e_{it} are (1 x l) vectors of dependent variable-specific fixed-effects and the idiosyncratic errors, respectively; the (k x k) matrices A_1, $A_2\ldots$, A_{p-1}, A_p and the (l x k) matrix B represent the parameters to be estimated. In particular, the innovation is assumed to possess the following characteristics: $E[e_{it}] = 0$, $E[e'_{it}e_{it}] = \sum$, and $[e'_{it}e_{it}] = 0$ for all $t > s$. Meanwhile, the equation-by-equation GMM estimation produces predictable panel VAR estimates (Love and Zicchino 2006; Abrigo and Love 2016), and attains efficiency gains with the consideration of the model as a system of equations (Holtz-Eakin, Newey, and Rosen 1988). Moreover, the presence of high residual correlation affects the ordering, which explains the selection of this study to depend on Stata programmes, as applied by Love and Zicchino, (2006) and Abrigo and Love (2016) for the estimation of panel VAR model[2]. Meanwhile, the Helmert transformation has been used to address the issue of orthogonality[3]. The cross-equation hypothesis testing also becomes more straightforward with the combined assessment of the system of equations. This study has used the Granger causality Wald test based on the GMM estimation and related covariance matrices; thus, testing the hypothesis

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[1] Abrigo & Love (2016) applied the first generation GMM estimator, which was proposed by Anderson and Hsiao (1982) in order to address the Nickell bias (Nickell, 1981).

[2] Love & Zicchino (2006) developed Stata programmes, which allow the estimation of panel VAR model and the calculation of impulse response functions. Accordingly, this study adopted the improved version (Abrigo & Love 2016).

[3] $y^{\perp}_{i,t+1} + 1 = c_{i,t}(y_{i,t} - 1/T_{i,t} \sum_{s>t} y_{i,s})$, where $c_{i,t} = \sqrt{T_{i,t}/(T_{it}+1)}$. Arellano and Bover (1995) recommended such transformation to minimize the data losses due to data gaps.

that propounds the notion that all coefficients on the lag of variable *m* are zero in the equation for variable *n*.

3. Sample Data

In this study, we used a sample population which comprised of 100 WMACs using specific criteria. First, these WMACs had to be listed in the February issue of the Fortune magazine as the "World's Most Admired Companies". These included 323 organisations that were based on the 2016 ratings as the Fortune survey was carried out in the fall of the previous year. Second, these organisations had to be listed in the Fortune list for 10 successive years since 2007. Here, the researchers used the CPA data, generated by the Centre for Responsive Politics (CRP) that consisted of the mandated public disclosure of the lobbying expenditure.

3.1 Measurement of the CSR

These ratings were published by the popular and respected North American magazine, Fortune, and resulted from the internal contest of all ideas, which was held during the 1980s. This rating was based on the assessment of 500 large US companies with regards to their best performance, financial results and turnover (10 companies in every sector). This sample included managers, executives, and financial analysts in every sector who were familiar with all companies that need to be evaluated. The interviews had to be conducted by email or phone and were structured as follows: evaluation using 8 attributes on the scale ranging from 1 (low) to 10 (high): a) Innovation b) Management quality c) Long-term investment d) Social responsibility e)Management of People f) Quality of services/products g) Financial soundness and the h) Use of corporate assets.

3.2 Measurement of the CPA

We derived data regarding the lobbying expenditure from CRP. This data was compiled with the help of quarterly lobbying disclosure reports, which were filed with the Secretary of Senate Office of Public Records. These reports included soft, hard and grassroots-based lobbying expenditures for every organisation. In this study, the measure of lobbying expenditure was an aggregate measure which did not include any information for the particular legislators who lobbied.

4. Empirical Analysis and Results

4.1 Data description

Table 1 describes the results of the descriptive statistics, whereas the results for the correlation coefficients were tabulated in Table 2. The relationship between the CPA and CSR was seen to be significant.

Table 1: Results of descriptive statistics

Variable	Unit of measurement	Observations	Mean	Standard deviation	Minimum value	Maximum value
lnCSR	Log of total scores (scale of 0 to 10)	1000	1.893	0.112	1.386	2.151
lnCPA	Log of total amount of lobbying expenditures	1000	7.624	1.557	0.125	10.63

Note: All statistics were based on the original data values.

Table 2: Results of correlation coefficients

	lnCSR	lnCPA
lnCSR	1	
lnCPA	0.120^{***}	1

Notes: *** denotes statistical significance at 1% level.

Table 3 indicated that we used the 1st to 3rd order panel VAR that used the first 5 lags of the CPA and CSR instruments, which were used for estimating all selection measures. Some studies (Andrews and Lu 2001; Abrigo and Love 2016) presented a few established criteria related to the Moment and Model Selection Criteria (MMSC) and the general coefficient of assurance (CD). Hence, this study used the 1st order panel VAR model out of the 3 models that were based on the Minimal values of the Bayesian Information Criterion (MBIC), Minimal Akaike Information Criterion (MAIC), and Hannan-Quinn Information Criterion (MQIC).

Table 3: Results of panel VAR's optimal moment and model selection criteria selection

Lag	CD	J	J_pValue	MBIC	MAIC	MQIC
1	0.987	20.301	0.061	-51.976	-3.694	-22.790
2	0.970	15.744	0.046	-32.443	-0.256	-12.987
3	0.977	4.030	0.401	-20.064	-3.670	-10.335

Based on the eigenvalues (<1) used in the estimated model, the researchers concluded that the panel VAR model could satisfy all the stability conditions which presented the invertibility and the infinite-order vector moving-average. Some studies (Brüggemann and Lütkepohl, 2006) observed the VAR stability in each example wherein the modulus for the companion matrices generated values <1, as shown in Fig. 1 and Table 4.

Table 4: Results of eigenvalue stability condition

Eigenvalue		Modulus
Real	Imaginary	
0.618	0	0.618
-0.239	0	0.239

Notes: All eigenvalues were within the unit circle; thus, the panel VAR model satisfied the stability condition.

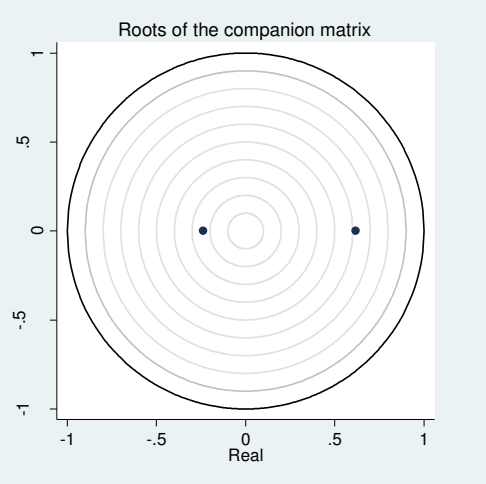

Figure 1: Graph of Eigenvalues within the Unit Circle

4.2 Panel VAR and Granger causality Wald test

Table 5 presented the coefficients that were derived in the panel VAR model for the CSR and the CPA using the GMM-style instruments. CSR and CPA showed a significantly negative relationship at the 5% level, which indicated the negative effect of the CSR on the CPA. Furthermore, the inverse bidirectional causal correlation existing between the CSR and CPA was plausible if the CPA negatively affected the CSR at 1%. Table 6 describes the results of the Granger causality Wald test that showed that the CSR Granger-caused the CPA and the CPA Granger-caused CSR. These results confirmed the bidirectional causal correlation between the CSR and the CPA.

Table 5: Main results of 2-variables panel VAR model

	Model 1	
	(1)	(2)
Variable	lnCPA	lnCAR
$lnCPA_{t-1}$	0.013*	-0.060***
	(0.007)	(0.016)
$lnCSR_{t-1}$	-2.581***	0.365***
	(1.037)	(0.141)
Observations	672	672
Number of panels	87	87

Notes: The standard errors are reported in parentheses (p-values). Meanwhile, * denotes statistical significance at 10% level; ** denotes statistical significance at 5% level; * denotes statistical significance at 1% level.

Table 6: Results of bivariate panel VAR-Granger causality Wald test

Null Hypothesis	Observations	Chi^2	p-value
CSR does not Granger cause CPA	672	13.764	0.000
CPA does not Granger cause CSR	672	6.197	0.013

Furthermore, in this study, the researchers derived the inferred FEVD and IRF to determine the causal order (Love and Zicchino 2006; Abrigo and Love 2016). The results indicated that the confidence intervals and standard errors for FEVD values were similar since the detailed results were not provided for conserving any space (that was available on request). For calculating the IRF confidence intervals, the study used the 200 Monte Carlo simulations. Table 7 indicated that the CPA could explain almost 16.7% of the variance seen in the CSR, whereas CSR can explain 12.9% of the variance that would occur in the CPA, depending on the FEVD values.

Table 7: Results of forecast error variance decompositions (FEVD)

	Forecast horizon	Impulse lnCSR	Variable lnCPA
lnCSR			
	0	0	0
	1	1	0
	2	0.849721	0.150279
	3	0.840473	0.159527
	4	0.833271	0.166729
	5	0.831237	0.168763
	6	0.830382	0.169618
	7	0.830070	0.169930
	8	0.829949	0.170051
	9	0.829903	0.170097
	10	0.829886	0.170114
lnCPA			
	0	0	0
	1	0.008096	0.991904
	2	0.113825	0.886175
	3	0.122129	0.877871
	4	0.128610	0.871390
	5	0.130518	0.869482
	6	0.131320	0.868680
	7	0.131614	0.868386
	8	0.131728	0.868272
	9	0.131772	0.868229
	10	0.131788	0.868212

Note: The FEVD standard error and confidence intervals are based on 200 Monte Carlo simulations.

Figure 2 presented the IRF results in the study, which highlighted the IRF of CSR, with regards to the innovative activities used in the CPA. The interpretation of the derived results was based on the idea that the error terms were unrelated. In terms of the levels, the negative shock that affected the CPA increased the CSR engagement, which exhibited the inward-bending CSR engagements and CPA. Furthermore, the shock occurring on the CPA led to a short-lived negative impact on the organisation's CSR activities, which reaffirmed the causal direction of the CPA towards the CSR in the CSR-CPA relationship.

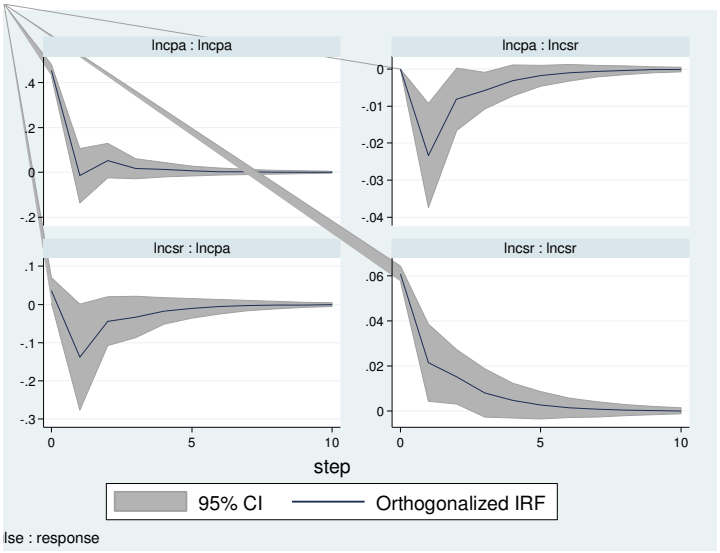

Figure 2: Functions of Impulse Responses

5. Conclusions

This study described the dynamic causality occurring between the CPA and CSR with the help of a comprehensive dataset that used the panel VAR model. This technique considered the firm-specific fixed-effects and primarily focused on analysing the impulse responses while assessing the influence of the shock affecting CSR on the CFP. Furthermore, we also carried out variance decomposition for assessing the relevance of such effects. The resulting outcome of the study contradicted the idea that was propagated by the virtuous circle hypothesis which stated that there existed a positive correlation and mutual reinforcement between the CSR and CPA. The outcomes of the study were seen to be two-fold. Firstly, this study highlighted the negative effect of shock affecting the CSR on the CPA. Secondly, the study showed that the short-term negative effect of the CSR on the CPA was more effective, while the observed congruous relationship could reaffirm the probable extension of this effect for >10 years with regards to the negative synergy hypothesis (where the socially-responsible organisations showed a low stakeholder trust and political influence, which restricted their socially-responsible investment). This study had a limitation that these companies were listed and hence their CSR was assumed to be reasonably higher compared to the unlisted companies, even if it was not as high as other organisations in different sectors. This could be a major problem since Brammer and Millington (2008) stated that the CSR-CPA nexus differed for the unusually smaller/bigger companies.

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