

## **A Study to Measure the Dimensions of CSR in FMCG Companies: An Application of AHP Model**

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**Abstract:** The study is divided into three sections. First section comprises the identification of various dimensions of CSR in the FMCG companies. Second section defines the process of applying AHP (Analytic Hierarchy Process) Model, to assign weights to the different dimensions of CSR as per the opinions of top level management of FMCG companies. Third section is used to test the model developed using AHP, on the CSR data of four major FMCG companies namely; HUL, Godrej, ITC, and Nestle. The study is based on the primary and secondary data. Secondary data is used to collect the data related to CSR activities of the surveyed companies for last five years. Primary data has been collected using AHP scale to record the opinions of the 100 top level management people of fifty FMCG companies, towards the importance of different dimensions of CSR. Primary data has also been collected from the employees of surveyed companies related to CSR activities of the companies. It was found from the study that Community is the most important dimension to do CSR activities by the FMCG companies, followed by customers, employees, government or legal bodies, shareholders and suppliers at last. The model developed with the help of experts' opinions was successfully tested for the four surveyed companies of FMCG sector.

**Keywords:** FMCG, Companies, Corporate social responsibility, Customers, Analytic Hierarchy Process, Employees, Community and Stakeholders.

### **Introduction:**

The concept of CSR was prevailing from the start of the industrial revolution. Private businesses were doing the welfare activities for their employees in order to make them happy and satisfied. Corporate social responsibility practices of the companies were earlier voluntary practices but after the Companies Act 2013, it has become a mandatory practice for the companies to follow.

FMCG sector is the fourth largest sector of the Indian economy which contributed around USD 33 billion to the GDP of the country during 2015. FMCG companies play an important role in the life of human being. FMCG products have become part and parcel of our life. As the consumers are becoming more aware about the companies and their products, they are becoming more critical about the business strategies of the FMCG companies and how these strategies are affecting the different aspects of human life. Thus, FMCG companies have made CSR as an important part of their corporate strategies<sup>1</sup>. According to the Companies Act, 2013, every company whose net worth is above Rs 500 crore, net profit is above Rs 5 crore or revenue is above Rs 1000 crore, have to make investment in CSR activities of an amount which is equal to 2 percent of its last three years profits. After the Companies Act, 2013, companies have shown aggressiveness in making investment in CSR activities. The share of Indian FMCG companies got increased by 57 percent during the year 2014-15, within one year of formation of this act<sup>2</sup>. According to the report of ASSOCHAM (2010)<sup>3</sup>, in India, FMCG companies are most active in doing CSR activities, followed by chemical and IT companies. Indian FMCG companies are involved in doing CSR activities related to the community welfare & development, education & enlightening rural youth, environment based CSR activities, health care activities to eradicate diseases and educating rural people about hygiene and disease prevention.

### **Review of Literature:**

Corporate social responsibility refers to the responsibility of a business towards its stakeholders viz. customers, suppliers, shareholders, society, government, legal authorities, and employees (murthy and Krishna, 2010).

### **Shareholders:**

Milton Friedman (2000) stated in the classic theory that corporate works as an agent of the owners/shareholders of the company, thus it is the responsibility of the company to maximize the wealth of the shareholders. Company should work to minimize the cost and maximize the profits.

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<sup>1</sup> Euromonitor Research (2011), "CSR and FMCG companies in Nigeria", [www.euromonitor.com](http://www.euromonitor.com)

<sup>2</sup> Ramanathan Arundhati (2017), FMCG firm's CSR spedn up by 57 % , nestle misses target", [Livemint.com](http://Livemint.com), 22 Feb 2017

<sup>3</sup> Vijayara Akhila (2010), "FMCG companies most active in CSR", [www.justmeans.com](http://www.justmeans.com), 15<sup>th</sup> Sep 2010

Shareholders are the owners of the company, they invest in the company. Company should provide right information at the right time to all the shareholders. It is the responsibility of the company to provide accurate information about the financial position, investment avenues, operations of the business, so that they can decide about future investment in the company. All the facts and figures in the annual reports should be correct and as per the companies Act, 1956 all the necessary disclosures about the company should be incorporated in the annual reports. It is the responsibility of the company to use creative, innovation methods, diversification for the growth of the company (Sharma & Sharma, 2010). Thus, overall it can be said that shareholders are the most important stakeholders of the company. They provide life to the company by making investment in the shareholders' capital. Thus, all the efforts of the company should be done as per the interest of the shareholders. Every function, process, policy, and strategy of the company should be in the favor of the shareholders and with a purpose to maximize the return on shareholder's capital (Singh, 2016).

#### **Employees:**

Employees are the most precious asset of any company. Human resources give life to all the other resources of the company such as; machinery, technology, material etc. Every business has some responsibilities towards its employees (Maon et al., 2009). It is the responsibility of the company to provide adequate compensation to its employees, competent or as per the industry norms, provide safe and secure working environment, quality supervision, growth opportunities, providing training to update their knowledge and increasing their worth, proper provision for avoiding workplace accidents, preventive measures for sexual harassment, transparency in promotion, transfer and performance appraisal, medical benefits to the employees and their family members (Pant, 2014). Companies should work to make all the employees happy and satisfied. It is the responsibility of the company to take care of emotional, mental, financial and cultural satisfaction of the employees. This is a two way process, if the companies fulfill their responsibilities towards the employees, then employees will also show interest in giving their best to the companies. It is directly related to the performance of the employees. The performance of the employees will be high and they show higher commitments towards the company, if companies fulfill their responsibilities towards the employees (Khan, 2009).

**Customers:**

Customers are the main stakeholders of the company. They give business to the companies. It is the responsibility of the company to provide quality product, at reasonable prices, of different varieties, and at nearest place. Company should provide after sales services to the customers, distribution system should work properly and it should not create artificial scarcity of goods with a purpose to increase the price of the goods. It is the responsibility of the companies to use the ingredients which are not harmful for the health of the customers, for hazards goods there should be proper warning to be written on the label of the products, and the instructions for use of goods especially in case of fast moving consumable goods (Aravossi et al., 2006). Company should not do false claims in the marketing of the goods about the features of quality of the goods (Hanke and Stark, 2009). Consumers should be provided right information about the products, its quality, risk related to the products, and adverse effects of the products. Customer is the king of the market and he should be treated as a God by the companies. Thus, it is the responsibility of the company to make customers happy, fully satisfied with the product quality, performance and services (Sharma and Mani, 2012).

**Suppliers:**

Suppliers or vendors are the persons who supply raw material, components, or semi-finished goods to the companies. They are important stakeholders of the company. Production function completely depends on the suppliers or vendors. If they do not deliver the raw material on time, then company have to face stock out and may lose customers due to shortage of finished goods. Thus, company should try to develop good relationships with eth suppliers (Saraf et al., 2012). It is the responsibility of the company to make payment to suppliers on time, to provide information about the changing tastes and attitude of the customers towards the product, and should build long term and sustainable relationships with the suppliers with a purpose to avail discount and to get delivery of raw material on time (Gautam and Singh, 2010).

**Government/Legal Authorities:**

Government and legal authorities are also important stakeholders of the company. Legal authorities and government takes interest in the functioning of company, because they need to assure that companies are doing business in the interest of the stakeholders, following ethical

practices and do not causing harm to the society or environment by their functions (Chapple and Moon, 2005). It is the responsibility of the companies to make timely payment of tax to the government, to provide correct facts and figures for assessing the value of tax, to follow all the provisions of the companies act, declaration of true income, should not try to evade tax, should comply all the legal provisions. The smooth functioning of the business without much interruption from the government and legal authorities can be ensured, only when the companies fulfill their responsibilities towards the government and legal authorities (Srivastava and Singh, 2015).

### **Community/Environment:**

Community is another important stakeholder of the business. Organizations have some responsibilities towards the society or community where it operates its business. Organizations operates their business in the society, make use of resources from the society, sale their goods to the society. Thus, it is very important for the companies to take care of the interest of the community or society. It is the responsibility of the companies to perform all of their business function in such a manner that it will cause less or no harm to the environment and causes less pollution to air, land and water. Companies should do efforts for the development and growth of the society (Rana, 2010). It is the responsibility of the companies to use environment friendly policies related to production, disposal of waste, packaging, and advertisement/marketing of products. It is responsibility of the companies to preserve natural resources. Companies should put efforts to develop the surrounding area such as; construction of roads, construction of houses for labors etc (Blomback & Wigern, (2009), Sharma and Mani, 2012).

Thus, overall it can be said that there are total six dimensions in which a company can perform its corporate social responsibility activities. Researchers have found various studies which have highlighted various dimensions of CSR, but there is lack of studies which have measured the importance of these dimensions for the overall performance of the companies. This study will fulfill this gap and researcher has made use of these six dimensions to measure the corporate social responsibility performance of the FMCG companies of India. Researcher has made an attempt to measure the importance of these six dimensions in the FMCG sector by recording the opinions of the experts using AHP model. Researcher has developed a CSR model using these dimensions along with their weights, and tested the model for FMCG companies.

**Objectives of the Study:**

1. To identify the dimensions of CSR in FMCG companies.
2. To measure the importance of each of the dimensions of CSR.
3. To develop and test the CSR model on the selected FMCG companies.

**Research Methodology:**

Study is based on both the primary and secondary data. Researcher has developed two instruments in the study to collect the primary data; one for collecting the data from the top level executives using AHP scale and other instrument for collecting the primary data from the employees of the selected FMCG companies about the CSR activities of the companies. The second objective of the study was to measure the importance of each of the dimension of CSR which were identified during literature survey. Researcher has used AHP model to assign weights to the various dimensions. AHP model is one of the well-known and widely used model, when we have a hierarchy of criteria and each criteria is independent in nature and keeps importance in decision making process. In AHP model, the opinions of the experts are required to assign the weights, who have knowledge about the field of related subject and have expertise also. Thus, researcher has selected the top 50 companies of FMCG sector of India and from each company 2 executive level employee from top level management have been contacted personally. Researcher has recorded the opinions of the experts using nine points scale used in AHP model. Questionnaire based on the AHP model has been given in annexure I. the sample size of the study was 100 top level management executives from top fifty companies of FMCG sector of India. Second questionnaire was used to record the opinions of the employees towards the CSR activities of the selected FMCG companies. Total number of statements used in the questionnaire were 30, five statements for each of the six dimensions of CSR. Data has been collected from 200 employees of four selected FMCG companies namely; HUL, ITC, Godrej and Nestle. Researcher has used SPSS 20.0 for data analysis. CSR performance of the FMCG companies has been measured using the following equation:

$$\text{CSR performance} = w_1 * x_1 + w_2 * x_2 + w_3 * x_3 + w_4 * x_4 + w_5 * x_5 + w_6 * x_6.$$

Where;  $w_1, w_2, w_3, w_4, w_5, w_6$ , are the weights for each dimensions that will be calculated using AHP model and  $x_1, x_2, x_3, x_4, x_5, x_6$ , are the mean score of the dimensions of CSR i.e. Community, customers, suppliers, government, shareholders and employees respectively.

Null hypothesis which was framed and tested during the study was:

**Null Hypothesis ( $H_{01}$ ):** There is no significant difference in the CSR performance of the FMCG companies.

**Data Analysis:** Researcher has developed the questionnaire for recording the opinions of the employees of the companies towards the CSR activities. Thus, the reliability of the questionnaire was measured first before further analysis of data using the same questionnaire. Cronbach Alpha was used as a measure of reliability. The value of the Cronbach alpha was found to be 0.872 which is a good value and questionnaire is found to be reliable and used for further analysis. Researcher has also measured the Cronbach alpha for each of the dimension of the CSR. The results are given in table 1 below:

**Table 1:** Reliability Analysis

S. No.	Dimension	Cronbach Alpha
1	Community	0.812
2	Customers	0.758
3	Suppliers	0.882
4	Government	0.902
5	Shareholders	0.912
6	Employees	0.786

It can be interpreted from the table 1 that the value of Cronbach alpha for each of the dimension of CSR is above 0.70 which is acceptable and all the dimensions used in the questionnaire were found to be reliable.

**Null Hypothesis ( $H_{01}$ ):** There is no significant difference in the CSR performance of the FMCG companies.

In order to measure the differences in the CSR performance of the selected FMCG companies ANOVA method has been used. The detailed results have been shown in table 2 and 3.

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
					HUL	50		
ITC	50	92.5000	14.23312	2.01287	88.4550	96.5450	55.00	107.00
Godrej	50	89.6200	7.70341	1.08943	87.4307	91.8093	72.00	113.00
Nestle	50	78.6600	13.61513	1.92547	74.7906	82.5294	52.00	110.00
Total	200	86.4300	14.90557	1.05398	84.3516	88.5084	52.00	113.00
		Sum of Squares	df	Mean Square	F	Sig.		
Between Groups		5480.700	3	1826.900	9.245	.000		
Within Groups		38732.320	196	197.614				
Total		44213.020	199					

		Sum of Squares	df	Mean Square	F	Sig.
Community	Between Groups	144.455	3	48.152	6.849	.000
	Within Groups	1377.900	196	7.030		
	Total	1522.355	199			
Customers	Between Groups	343.455	3	114.485	10.608	.000
	Within Groups	2115.340	196	10.793		
	Total	2458.795	199			
Employees	Between Groups	156.420	3	52.140	6.248	.000
	Within Groups	1635.560	196	8.345		
	Total	1791.980	199			

Government	Between Groups	361.255	3	120.418	9.996	.000
	Within Groups	2361.140	196	12.047		
	Total	2722.395	199			
Shareholders	Between Groups	333.055	3	111.018	10.967	.000
	Within Groups	1984.100	196	10.123		
	Total	2317.155	199			
Suppliers	Between Groups	168.280	3	56.093	4.210	.007
	Within Groups	2611.720	196	13.325		
	Total	2780.000	199			

It can be interpreted from the table 2 that highest mean value of CSR performance is of ITC, followed by Godrej, HUL and Nestle. F-value is found to be 9.245, which is significant at one percent level of significance, which leads to rejection of null hypothesis. It can be said that there is a significant difference in the CSR performance of the FMCG companies working in India. Researcher has also measured the differences in the various dimensions of CSR for all the four selected FMCG companies. It was found from the study that f-value for all the six dimensions of CSR were found to be significant at one percent level of significance, which shows that there is a significant difference in the performance of FMCG companies in different dimensions of CSR.

**Table 4:** Mean values of CSR Dimensions

	N	Range	Minimum	Maximum	Mean	Std. Deviation
Community	200	13.00	9.00	22.00	16.3650	2.76587
Customers	200	15.00	8.00	23.00	15.8950	3.51508
Employees	200	14.00	8.00	22.00	15.4900	3.00082
Government	200	16.00	6.00	22.00	14.9450	3.69870
Shareholders	200	16.00	5.00	21.00	13.4350	3.41233
Suppliers	200	16.00	5.00	21.00	10.3000	3.73763
CSR	200	61.00	52.00	113.00	86.4300	14.90557
Valid N (listwise)	200					

Table 4 shows the descriptive analysis of all the six dimensions of CSR measured during the study. It can be interpreted from the table 4 that highest mean value of CSR is for community, followed by customers and employees, while the least mean value is recorded for the suppliers. Thus, it can be said that FMCG companies are doing CSR activities mostly related to the community welfare and development and giving less importance to its responsibility towards the suppliers.

**Analysis using AHP Model:** AHP model is based on the human judgement and human judgement can be inconsistent thus, it is required to measure the consistency in the opinions for each of the experts. The validity of the questionnaire is measured using consistency ratio. The CR ratio for seventy 72 experts have been found less than 10 percent, which shows that there is a consistency in the opinions or judgments of the experts. Thus, the opinions of only 72 experts have been used to measure the weights of the various dimensions of CSR. Table 5 shows the weights calculated using AHP model:

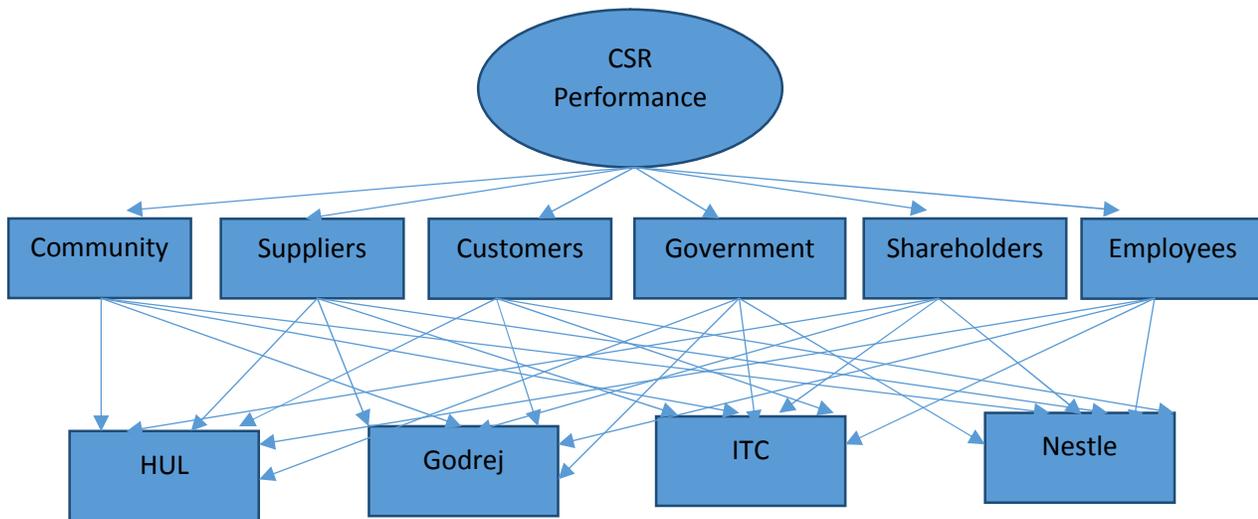
**Table 5: Weights of the dimensions of CSR**

<b>Dimension of CSR</b>	<b>Weights/Importance</b>
Community	0.278
Customers	0.202
Suppliers	0.103
Government	0.132
Shareholders	0.117
Employees	0.168
Total Weights	1.000

It can be interpreted from the table 5 that according to the experts' opinions, all the six dimensions of CSR are not equally important for FMCG companies. Indian FMCG companies are giving more importance to the community development dimension, followed by customers and employees. The highest weightage has been assigned to the community by the 72 top level management executives of top fifty FMCG companies of India. Thus, FMCG companies are fulfilling their responsibility towards the society and consider society or community as an important stakeholders. Here, the community includes the concern of companies towards

environment as well. The least important stakeholders are suppliers with lowest weightage when it comes to fulfill the social responsibility of business. Overall, from the table 4 and 5 it can be said that experts opinions about the importance of CSR dimensions and the employees’ opinions towards the actual CSR activities done by companies in last five years in different areas of CSR are fully match to each other, which shows that there is a similarity between what top management thinks and what they executes actually. They give their judgment that community is most important area to do CSR and they actually doing majority of the CSR activities related to community only. Similarly, experts give opinion that least important area of CSR is suppliers, and the lowest mean value of CSR performance towards suppliers proves that they actually doing less CSR activities related to suppliers. Figure 1, shows the CSR model using AHP model for FMCG companies.

**Figure 1: CSR Model for FMCG Companies**



**Table 6: CSR Performance using weights**

S. No.	Dimension	CSR Performance
1	HUL	14.673
2	Godrej	15.895
3	ITC	15.634
4	Nestle	13.668

CSR performance of the companies has been measured using the equation 1 given in research methodology section. The weights which were measured using AHP model and the mean value of the companies for each of the six dimensions of CSR have been used. It can be interpreted from the table 6 that the highest CSR performance is of Godrej, followed by ITC and HUL, while the lowest CSR performance is of Nestle Company. Thus, it can be said that there is a difference in the ranking of the company if we consider all the dimensions of CSR equally and if assign weights to the dimensions of CSR as per their importance or relevance. When we have not assigned any weights to the dimensions and considered all the dimensions equally important then ITC was the highest CSR performer while after assigning weights to the dimensions of CSR it was found that Godrej is highest CSR performer. Thus, it can be said that the conceptual model developed during the study to measure the CSR performance of the FMCG companies successfully tested using AHP model.

It was found from the study that all the dimensions of CSR are not equally important for the FMCG companies. FMCG companies have different stakeholders and all have different type of interest in the business of the companies, therefore the importance of the stakeholders are also different from the company's point of view. The most important dimension of CSR is community as per the experts' opinions. Community is a place where the companies perform their functions. Thus, it has greater responsibility towards the society, community. FMCG companies are doing efforts for the development and welfare of the society. FMCG companies are producing green products, using green packing, and green advertisement practices to reduce harm to the environment and to take better care of the health of the society members. FMCG companies also involve in conducting awareness programs against drugs addiction, smoking, and various other social evils. Majority of the CSR activities done by the FMCG companies are devoted to community and environment only.

**Conclusion:** It can be concluded from the study that there are mainly six dimensions of CSR namely; community, customers, suppliers, government/legal authorities, employees, and shareholders. Experts have given opinions that out of these six dimensions, community is the most important dimensions of CSR while suppliers are the least important dimension of CSR in FMCG companies of India. Employees' opinions towards the actual CSR activities performed by the FMCG companies also showed the same results that FMCG companies have done majority

of the CSR activities related to community welfare and development and very few or least CSR activities have done related to the Suppliers. The conceptual model developed during the study was successfully tested with the help of AHP model and it can be said that all these six dimensions of CSR are not equally important in the FMCG companies. The study is relevant from the managerial perspective, as it shows that FMCG companies should focus more on CSR activities related to suppliers, as this is the least focused are by the FMCG companies and the most important dimension is community where the companies are performing their business functions. Thus companies should try their best to serve the community and for the development of the society. Study is based on the primary data thus, suffers from biasness in the responses of employees and also the sample size of the study was 200 which is very small. Study is based on the survey conducted for four FMCG companies, thus it can be extended to other companies also. In future, the researchers can test the same CSR model on the companies from other sectors also.

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