Confirmatory Factor Analysis Model of Corporate Social Responsibility: Labor Practices

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Abstract

This empirical research aims to develop and validate the major composites of Corporate Social Responsibility, namely Labor Practices. It analyzes 612 employees of 28 companies certified by Department of Industrial Works, Ministry of Industry, Thailand, on their Standard of Corporate Social Responsibility (CSR-DIW) as examples. The results from LISREL 8.52 confirm that factors of Labor Practices are valid. Five factors of Labor Practices include Employment and Employment Relationships, Conditions of Work and Social Protection, Social Dialogue, Health and Safety at Work and Human Development and Training at the Workplace.

Keyword: Confirmatory Factor Analysis, Corporate Social Responsibility, Labor Practices

Background

In the globalization era, trade liberalization has widened business world. “Free Trade” is exposing enterprises to fierce international competition. Survival and highest return are the company major targets. While many business operators are ravenous for their highest profit, they overlook their social responsibility and stakeholders, including clients, staffs, contractors and communities, leading to lowering in public confidence (Browning, 2002). Nevertheless, more business operators have turned around to take their stakeholders interests and business impact to communities into their account (Gibbs, 2002; Maignan and Ralston, 2002; Boonbongkarn, 2004). “Corporate Social Responsibility” (CSR) has become widely mentioned than ever. During the past 20 year, relationship between business enterprises and communities has been significantly changed. Social activities in the forms of merit making, money and...
requisites donation have been developed to cooperation between business operators and communities or stakeholders (Yoonprathom, 2007; Snider, Hill and Martine, 2003; Bala Ramasamy and Ting, 2004). This leads to the new strategy in business management. Business corporations are now aiming not only for profit but also their good image and reputation on business responsibility. The scope of CSR is not limited to social and environment issue anymore. CSR expands its scope to human quality development, especially quality of work life. In addition, labor practices is one of the major issues stated in an agreement under UN Global Compact 2000 (United Nations Global Compact, 2009). Improving well being of employees is considered an important CSR activity. It builds positive image to society. Moreover, improving standard of living and working among employees helps lower accidents at work. It helps organizations reduce expenses while establish good image. Indirectly, it improves well being of their employees and communities (Campbell, 1997).

For Thailand, there is limited study on the labor practices. Concrete composite of CSR in labor practices is not yet empirically evidenced. However, insight gained from the study will be beneficial not only for academician but also business operator. As personnel resource is one of the most important factors driving organization to their goal and success. Organizations should efficiently use this significant resource (Wongputh, 2007). Based on a survey conducted in Finland, 82% Finnish CEOs consider responsibility towards employee as a very important area of CSR (Habisch and et al, 2005). The most important stakeholders to Japanese corporations are employees (Lewin and et al, 1995). This study, thus, aims to develop and validate the composites of labor practices in the Thai context. Measurement on labor practice are based on both Corporate Social Responsibility Standard of Government Factory Department, Ministry of Industry Works (CSR-DIW) and ISO26000 guideline (ISO/DIS, 2009). Such composites will be used as fundamental constructs representing labor practices in the real business settings in Thailand. Academician will use them as a Thai labor practice measure, while Thai business operator will use them as a concrete guideline to improve their labor practices and work conditions according to internationally accepted standard.

**Framework**

The model is based from principle of Corporate Social Responsibility Standard, Government Factory Department, Ministry of Industry Works (CSR-DIW). The standard was

Figure 1 depicts the conceptual framework developed particularly for this study.

\[
\text{CSR} = L_1 \times \text{CSR}_{EM} + L_2 \times \text{CSR}_{CW} + L_3 \times \text{CSR}_{SD} + L_4 \times \text{CSR}_{HS} + L_5 \times \text{CSR}_{HD}
\]

Where:
- \(\text{CSR}_{EM}\) = employment and employment relationship.
- \(\text{CSR}_{CW}\) = conditions of work and social protection.
- \(\text{CSR}_{SD}\) = social dialogue.
- \(\text{CSR}_{HS}\) = health and safety at work.
- \(\text{CSR}_{HD}\) = human development and training at workplace.

**Methodology**

**Sampling**

The target population is 39,249 employees of 28 companies certified by Department of Industrial Works, Ministry of Industry, Thailand, on their Standard of Corporate Social
Responsibility (CSR-DIW) in 2008. Based on Taro Yamane’s formula, for the population size of 50,000, sample size should be 1,368 at 99% confidence level with a precision rate of ± 4 % (Yamane, 1973). Thus, 1,400 employees from both operational and management levels of the 28 companies are taken proportionately as samples.

Research Design and Measurement

Seven-point-scale questionnaire was developed based on literature review and principle of Corporate Social Responsibility Standard (CSR-DIW). There are 37 items measuring five constructs of labor practices, including (1) employment and employment relationship (2) conditions of work and social protection (3) social dialogue (4) health and safety at work (5) human development and training at workplace. Each item is modified and re-written to ensure its understandability among respondents. Then, three specialists in the specific fields checked its content validity. Pre-test was conducted on a group of 50 employees from the company with similar characteristic as the selected samples. The overall reliability value is 0.98 (Appendix A: Extract Samples of the CSR: Labor Practices Questionnaire).

Data Collection

1,400 set of questionnaires attached with cover letter were distributed by hand if permitted or by mail, otherwise. A total of 612 questionnaires were totally completed and returned with the response rate of 43.70 %.

Findings

Pearson's Product Moment Correlation is used to analyze the relationship between the observed variables. The correlation between the five observed variables are statistically distinguishable from zero (p=0.01). Table 1 summarizes correlation coefficients of labor practices ranging from 0.676 to 0.810, indicating no multicollinearity. There is correlation among these five factors, including (1) employment and employment relationship (2) conditions of work and social protection (3) social dialogue (4) health and safety at work (5) human development and training at workplace.

<table>
<thead>
<tr>
<th></th>
<th>CSR_EM</th>
<th>CSR_CW</th>
<th>CSR_SD</th>
<th>CSR_HS</th>
<th>CSR_HD</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR_EM</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSR_CW</td>
<td>0.777**</td>
<td>1.00</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>CSR_SD</td>
<td>0.746**</td>
<td>0.751**</td>
<td>1.00</td>
<td></td>
<td></td>
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</table>
The analysis of correlation matrix with Barlet’s test of Sphericity (Chi square = 2518.606, df = 10, p =0.00) and Overall Kaiser-Mayer-Olkin (KMO = 0.884) indicates that non-identity matrix and relationship between observed variables are large enough in confirming factors of the model. (Figure 2)

![Figure 2: CSR: Labor Practices Model](image)

Confirmatory factor analysis was further conducted. The results are presented in Table 2. The confirmatory factor model can well represents the data with Chi-Square = 2.98, df = 2, P = 0.225 , RMSEA = 0.028 , GFI = 1.00, AGFI = 1.00. The model of CSR: labor practices provide good fit of the data. Factor loading of the five factors ranging from 0.78-1.03 is considered practically significant. The squared multiple correlations provide information about how much variance the factors account for in the observed variables. The value of squared multiple
correlations for all factors are significant with the value above 0.5, indicating high constructs to CSR: labor practices

Table 2: CSR: Labor Practices Model Validity Assessment

<table>
<thead>
<tr>
<th>Variables</th>
<th>CSR constructs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Factor loading</td>
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<tr>
<td>CSR_EM</td>
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</tr>
<tr>
<td>CSR_CW</td>
<td>0.91</td>
</tr>
<tr>
<td>CSR_SD</td>
<td>1.03</td>
</tr>
<tr>
<td>CSR_HS</td>
<td>0.88</td>
</tr>
<tr>
<td>CSR_HD</td>
<td>0.98</td>
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</tbody>
</table>

Chi-Square = 2.98 , df = 2 , P = 0.225 , RMSEA = 0.028 , GFI = 1.00 , AGFI = 1.00

Table 3 indicates the average scores of the five constructs, which constitute labor practices in Thailand. Thai workers generally perceive that their employers treat them well according to the international best practices in labor and CSR-DIW (5.31-5.76). They strongly realize that their employers provide them with good condition of work and social protection (5.76). Health and safety at work is also perceived to be highly emphasized (5.63). Thai organization puts more commitment in employment and employment relationship (5.52). Human development and training at workplace and social dialogue are perceived to be less supportive (5.38 and 5.31).

Table 3: CSR: Labor Practices Descriptive Statistics

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>S.D</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
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<tr>
<td>CSR_EM</td>
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<td>0.94</td>
<td>1.75</td>
<td>7.00</td>
</tr>
<tr>
<td>CSR_CW</td>
<td>5.76</td>
<td>0.97</td>
<td>2.10</td>
<td>7.00</td>
</tr>
<tr>
<td>CSR_SD</td>
<td>5.31</td>
<td>1.21</td>
<td>1.00</td>
<td>7.00</td>
</tr>
<tr>
<td>CSR_HS</td>
<td>5.63</td>
<td>1.01</td>
<td>1.50</td>
<td>7.00</td>
</tr>
<tr>
<td>CSR_HD</td>
<td>5.38</td>
<td>1.16</td>
<td>1.25</td>
<td>7.00</td>
</tr>
</tbody>
</table>
Discussion

Department of Industrial Works, Ministry of Industry, Thailand sets the Standard of Corporate Social Responsibility (CSR-DIW) with five elements of labor practices. The results of this research confirm that all of these are factors of labor practices in Thailand. Based on the findings, Thai workers perceive that condition of work and social protection is the practices they obtain at most from the employers. Meanwhile, human development and training at workplace and social dialogue are the least supported. Nevertheless, from confirmatory factor analysis (Table 2), the factor loading indicates that social dialogue possesses the highest ability to explain CSR. Human development and training at the workplace is ranked second. Thai organizations should develop policy that encourages more participative and democratic atmosphere in their workplace. Social dialogue is a powerful mean in managing change. It enhances better understanding between organization and workers, healthy labor-management relations, human development and productivity. Additionally, Thai organization should put more investment on employee development and training, which will enable them to have higher advancement potential with the organization and thus better standard of living. These will create more awareness of labor practices in CSR among employees and ultimately help Thai organizations in improving their CSR.

Conclusions

The model of CSR, namely labor practices, provides good fit of the empirical data, and is valid for measurement. Five factors of labor practices in Thailand, composing of employment and employment relationships, conditions of work and social protection, social dialogue, health and safety at work and human development and training at the workplace, are confirmed. Thai organization can use them as a major guidance in improving their labor practices and to be more in line with the internationally accepted standard of CSR. Further research on any issue in CSR: labor practices in Thailand could be conducted by using these five confirmatory factors as a valid measure. In addition, the construct of other CSR dimensions such as human rights and environment should be further explored.
Reference


Website


Appendix A: Extract Samples of the CSR: Labor Practices Questionnaire

Employment and Employment Relationship:

- You ensure that your organization contains legitimate business.
- You have employment contract with the organization according to the law.
- If external services such as sub-contractor and security officer are used, your organization will sign a contract with the legalized entity only.

Conditions of Work and Social Protection:

- Your organization supplies you with the appropriate employment condition such as salary and wage, working hour, vacation, health and safety (provides clean drinking water, cafeteria, nursing room etc.)
- Your organization makes a payment that is fair and consistent with the law to you
- Your organization makes a payment directly to you (not through broker or agent).

Social Dialogue:

- Your organization does not limit the employee’s rights for participation in negotiations.
- Your organization supports the rights of employees to establish their own groups, such as welfare committee, security committee and union.

Health and Safety at Work:

- Your organization has a clear policy on occupational health and safety. Such policy can be applied and developed continuously.
- Your organization analyzes and controls risks in occupational health and safety for every risky work activity.
- Your organization provides you with essential protection equipments used for emergency and needed to prevent accidents and disease.
- You are not responsible for expenses incurred for health and safety in workplace measures.

Human Development and Training at Workplace:

- You are provided with the opportunity to develop, train your skills, and enhance your experiences, including opportunities in work progress without discrimination on national, religion, or other conditions such as class, age, citizenship, sexual taste, marital status, handicapped and political membership, etc.
- You have reasonably regular working time and overtime and right balance of working life and private life.
- Your organization organizes project or activity that emphasizes on participation in health promotion and well-being.