

Corporate Social Responsibility: Institutional Legitimacy Action and Strategy

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Abstract - The objective of the study is to investigate the Corporate Social Responsibility (CSR) action and strategy used by the top 100 Malaysian Listed Companies followings the 1997 Asian's financial crisis. This research focus on Malaysian companies because Malaysia considered as one of the largest stock market in Southeast Asia countries. These studies utilize company's annual reports as a proxy for their CSR initiatives. As crisis has resulted negative impact to country and society, the result of the study shows that the economic crisis have motivated government and business to joint hand together to mitigate the impacts, as evident since 1920s i.e. after the Stock Market crash in United States and World War II. On the other hand, the crisis has also provide opportunity for the business to redirect away from a threat to an opportunity that differentiate them from the others. Furthermore, the study fairly explains legitimacy theory notions on the managerial actions from the Institutional lens namely "Institutional Legitimacy". Finally, apart from offerings descriptive contribution, our ambition is to assist future research on the post economic crisis particularly after the 2008 global economic crisis. This is because the state social structures, communities and people's ways of life were completely re-shaped after the economic changes.

Keywords: *Corporate Social Responsibility; Economic crisis; Legitimacy Theory; Developing Country; Malaysia.*

I. INTRODUCTION

The Corporate Social Responsibility (CSR) awareness in Malaysia was started followings the 1997 East Asian Financial Crisis, pioneered by the Non-governmental Organizations and Professional Accounting Bodies [I]. Subsequently, in the middle of 2001, the Malaysian Securities Commission has introduced CSR to the Malaysian Public Listed Company through the introduction of Corporate Governance Code. This is because the Commission views CSR as part of Corporate Governance which will

strengthen the governance code due to inclusiveness of stakeholder's interest rather than merely for shareholders'. To support those initiatives, the government has included CSR as one of the public policy in the National Economic Policy, the Malaysian Vision 2020, National Integrity Plan, and the current mandatory requirements for CSR disclosure in the annual report for the all public listed company.

The 1997 East Asian financial crisis constituted a threat to many Asian countries economic development, banking sectors, business, people etc. due to the damage and losses it had caused, such as political stability. For Malaysia, the crisis was among the factor had influence the government to introduce and promote CSR in Malaysia [I]. Similar situations occurred during earlier 20th century, when scholars had seriously discussed on the importance of business responsibility to the society and state economic development [II]. As posit by scholars, CSR is voluntary actions to protecting and improving welfare of the society. Protecting society welfare means *avoiding* the negative impacts either in economic or non-economic causes on society, whereas improving the society welfare is *creating* positive contributions for the society and country [III]. This is because business is social living beings formed by people, thus their actions will affect the people around them.

Therefore, the objective of this study is to examine the CSR initiative by the top 100 Malaysian listed companies, followings the 1997 Asian financial crisis, but before the introduction of CSR initiatives by the government and regulatory body (Malaysian Securities Commission). Hence, the data from this study are from the financial year 1999 to 2001. We used 1999 annual reports as a starting point for our study because the report will shows how the business response to the crisis, explicitly CSR actions and strategy. We hope this study will enrich our knowledge and subsequently contribute

to the CSR literature on actions and strategies used by the business, especially after the financial or economic crisis. This is because the state social structures, communities and people's ways of life are completely re-shaped after the economic changes. In addition, the crisis will raised an issues on the cost incurred to some of the initiatives. Or benefits derived from some of CSR initiatives such as increased economic performance. And CSR also consider as the time to redefine relationship between business, government and society. In addition, to our knowledge there is limited literature relating to CSR to the following economy crisis, except for highly referred study on specific industry crisis namely Exxon Valdez oil spill by Patten (1992), [III] and Deep water Horizon oil spill in 2010.

To analyze the CSR information discloses in the annual report, we employed one of the qualitative research methodologies namely "Content Analysis". The content analysis is widely employed in many CSR studies to measure the quantity of CSR disclosure in the printed report, i.e. either in annual report or separate social report [IV]. Content analysis defined in literature as a method of codifying text (or content) from a piece of writing into various group (or categories) that depends on the selection criteria [III]. In this study, we categorized CSR items into four major themes namely; environment and energy, human resource, product or services and community. The definitions applied in the checklist were derived from extensive review of prior literature, which covered major CSR themes in the literature [I] [V][VI]

II. LEGITIMACY THEORY

Social science researchers have sought to understand why business involves in CSR activities. However, there is no single theory can fully explain business CSR involvement [VII]. This is because as a human being, the business owner i.e. shareholder and manager cannot run from the behavior of opportunism and greed. Furthermore, change in society demands and global uncertainties are among the reasons that influence them to engage in CSR initiatives.

Gray et al., (2001) posit that both legitimacy and stakeholder theory are the overlapping theories conceivably in the political economy assumption. Furthermore, Newson and Deegan (2002) have explained the concept of social contract into legitimacy theory postulate. On their argument, they argue that business will fulfill society's demand and its will change from time to time i.e. before it's threatened business survival [IX] [X]. In the area of Accounting disclosure

study, researchers repeatedly referred legitimacy theory definition by Lindblom (1994) and Suchman (1995) and relates to CSR initiative by the business. Both scholars argue that businesses have to follow local society or stakeholder norms and culture, in order for them to legitimize their behaviors in a form of publicity and influence [IX]. Therefore, legitimacy theory is considered as one of influential theory in accounting research particularly in explaining business CSR disclosure activity, as the business will signal their legitimacy action and strategy that emerge from the information disclose in those report.

Cormior and Gordon (2001), and Gray et al., (2001) explained Dowling & Pfeffer, (1975) and Lindblom (1994) on what legitimacy actions and strategies that could be used by the business when they face legitimacy threat [X] [XI]. The first strategy is to educate the society about the organization's intention to improve its performance or change in action. The second strategy is to alter how society perceived an organization's action without making any changes to those actions. The third strategy has been diverted or manipulated attention away from the issue concerned by the society to other alternative issues. The last strategy is to changed or altered society's expectations about organization performance. In view of the above strategies, it is assumed that Legitimacy Theory would provide information that legitimizes organization behavior with the aim to influence society and stakeholders perceptions about the companies. Boyd (2000) has extended the concept of legitimacy to distinguish between institutional legitimacy and actional legitimacy. The difference between institutional legitimacy and actional legitimacy has been summarised by Boyd (2000, p. 348) as follows [XII]:

If institutional legitimacy matters at the macro level of analysis, actional legitimacy matters at the micro level of analysis. Actional legitimacy is achieved when an action is perceived by publics as being undertaken within the institution's realm of authority and thus inspires public confidence in the institution.

III. FINDINGS AND DISCUSSION

Our initial sample consists of top 100 Malaysian listed companies over the period 1999 to 2001. We had to remove three companies as their financial year-end was more than 12 months, due to change in reporting period. Additionally, we also had to remove another 12 companies due to difficulty in obtaining their annual reports. Our

decision based on two reasons. First, after several contacts and request to those companies that fails to get response. And second, the said reports are not available at our Malaysian Stock Exchange library. So, our final sample comprised of 85 companies with 255 annual reports. The descriptive statistics is as per Table I divided into panel A (overall disclosure) and B (yearly disclosure).

Table I
Descriptive Statistics
Years 1999-2001
n = 255 (85 firms x 3 years)

Panel A Type of Disclosure	Mean	SD	Max
Community	0.80	1.74	12.90
Employee	0.76	1.55	9.40
Product	0.77	1.68	12.00
Environment	0.35	1.08	9.00
Total	2.62	4.85	31.4
Panel B Type of Disclosure by Year			
1999			
Community	0.81	1.71	12.00
Employee	0.56	1.20	6.00
Product	0.68	1.33	8.00
Environment	0.28	0.88	5.10
Total	2.35	4.19	26.26
2000			
Community	0.79	1.70	9.00
Employee	0.73	1.47	6.70
Product	0.87	1.87	11.00
Environment	0.34	1.17	9.30
Total	2.75	5.32	31.62
2001			
Community	0.81	1.83	12.90
Employee	1.01	1.89	9.40
Product	0.82	1.79	12.00
Environment	0.43	1.17	7.0
Total	3.09	5.33	30.26

Table I (Panel A) provides a descriptive result for the four primary CSR themes. The result shows that CSR quantity is quite moderate. The highest disclosure for a single company is 31.4 pages with an average of 2.62 pages. However, there are some variability's in the quantity of CSR information disclosed by the companies; the standard deviation figures are high, relative to their means. The big gap between the maximum and minimum values indicates that there are few companies disclose relatively large amounts of CSR information.

At a disclosure level theme, community related disclosure is slightly higher than others three CSR theme either in 3 years average or yearly average. The disclosure item in the reports includes donations to community groups or charitable organizations, sponsoring the national pride governments' projects and education program. With reference to the legitimacy theory postulate, the business will disclose more on this item to shows their responsibility and commitments towards society and country. Moreover, for the company's operates in developing countries, their CSR activity is more on community programs [XIII]. On the other note, the highest disclosure theme on community relationship, suggests that followings the economic crisis, the sample companies were in the middle of rebuilding their image, reputation and maintaining their goodwill [X].

For the theoretical arguments under the legitimacy theory notions, business or institution's, together with other parties, (in our case is government) for a specific purposes. As result of their act both parties, get benefits either in economic or receiving approval from the society. One of the significant examples is the collaboration between the government and private sector to strengthen the country economy. As usual economic crisis will restricted borrowings and investment procedures. Therefore, numerous consequences for business, society and government are associated with the financial downturn.

In the case of Malaysia, to minimize the economic effect, the result of our disclosure analysis the business and government have jointly organized the Home Ownership Campaign. Their aim is to reduce the oversupply unsold properties. Indirectly both parties worked together to assist in making economic growth which has created synergistic effects between them. Other than that is to increase people's confidence to the business and government. One of the good results was increase in loan approval for property sector, particularly during the fourth quarter of 1999 and the second quarter of 2000, 6.9% and 8.5% respectively.

The product theme is rank second (mean = 0.77 page). Examples of products related theme are product research and development, product safety standards, ISOs' achievements and commitments, and product quality awards received from the reputable organizations. The important explanations for this theme are the combined efforts between companies and government to improved country's international competitiveness and industry productivity which

has bring significant impact to economic growth. For example Malaysia GDP growth was increase from negative six percent in 1998 to positive three percent in 2001. This is another important contribution to the country economy made by companies to the government. The government commitments for Asia Free Trade Area and the World Trade have increase pressure for the sample companies to improve their performance [XIV].

In this study, the human resource disclosure theme is rank third as compared to the majority of earlier studies done in Malaysia [I]. We have expected lower CSR disclosure on this theme because of the business is in the midst of restructuring, thus it has to strengthen their management, financial and operation. Furthermore, after the economic crisis their focus is implicitly to assist government in improving economic. Therefore, they only provide fewer benefits for their employee.

Finally, the environment disclosure theme is the lowest rank against others three CSR themes. The disclosure items under this topic are information on environmental and waste management, environmental management systems and environmental education. The minimum disclosure may indicate the environmental issue is not the main concern by the sample companies at that time. This is because their assumptions on the investment in environmental related initiatives is relatively high because they are in the midst of rebuilding their business [XV] and by the same time assist government in the economic recovery.

IV. CONCLUSION

The main purpose of this study is to provide an insight into the CSR initiatives by top Malaysia listed companies following the 1997 Asian financial. The descriptive results indicated that the number of CSR activities by the sample companies have increased from the year 1999 to 2001. The CSR analysis by theme partly explains the concept of organizational legitimacy, which relates to the legitimacy theory postulate on the business, will disclose information that aligns with society's expectations and trust, corresponding with specific issues at that time.

The results posit that for the business and government, the financial crisis is the period whereby both parties have an opportunity to regain lost of stakeholders trust, either from micro or macro perception. And it's redefine the relationship between business, government and society. Those perceptions and trust are important determinant for business and country survival. This is because customers could refuse to buy

business products, and investors, mainly foreign investor refuse to invest in the country. On the other hand, the result shows that financial crisis provides the opportunity for business to redirect CSR away from a threat to an opportunity differentiate them from the others. Besides that, it against the literature that hypothesizes CSR projects will impose additional costs to business, followings the period of the financial crisis.

This research has a limitation. These studies only look into a number of factors to describe CSR practice by Malaysian companies after the 1997 Asian financial crisis. Therefore, we would like to suggest a comparative study on CSR's strategies use by companies following 2008 global economic crisis, which affected many western countries, as more empirical result is needed for benefits and important of CSR initiatives to the stakeholder.

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