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Procedia - Social and Behavioral Sciences 65 (2012) 897 – 905

Procedia
Social and Behavioral Sciences

International Congress on Interdisciplinary Business and Social Science 2012

(ICIBSoS 2012)

Corporate Social Responsibility And Company Performance In The Malaysian Context

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Abstract

The concept of social responsibility of corporations has engendered considerable interest in Malaysia in recent years. While previous research on the relationship between corporate social responsibility and company performance has largely been based on international data, this paper reviews the relationship between the adoption of corporate social responsibility and the company performance of public listed companies. 200 responses were received from a population that had already working in Malaysian public listed companies. The results derived from multi-group structural equation modeling within AMOS 7.0. Furthermore this paper found a significant relationship between CSR and company performance. The findings imply the need for public listed companies, particularly main and ACE board, to strategically leverage the effect of CSR on company performance.

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Selection and peer-review under responsibility of JIBES University, Jakarta

Keywords: Corporate Social Responsibility, company performance, public listed companies, Malaysia.

1. Introduction

Corporate Social Responsibility (CSR) has become a very important addition to businesses and can be described as the main reason for competition and a company's ability to survive and it had done the best

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resulting success in business once it's adopted in. It shows the relation and the impact of the business in the society and it will be stronger and more relevant when it has more connection with the core business of the organization. Baron (2007) supported that corporate social responsibility has become an important part in the business strategy of a growing number of companies worldwide, since the performance of a business organization is affected by their strategies in the market, as well as non-market environments. Furthermore, CSR makes living standards higher while maintaining the profitability of the organization for the people (Hopkins, 2004).

1.1 CSR in Malaysia

Although CSR is rapidly becoming a worldwide phenomenon, in Malaysia, according to some studies (Abu-Baker & Naser, 2000; Belal, 2001; Imam, 2000; Tsang, 1998; Nik Nazsli, Maliah, & Siswantoro, 2003; Branco & Rodrigues, 2006), many public companies are slower in responding to the issue of CSR, such as preservation and protection of the environment and the social welfare of the communities in which they operate. Furthermore, according to the New Straits Times Newspaper (2010), the Malaysian Government's efforts to promote CSR are still not taken seriously by many companies because a few of the international corporations and big corporations in Malaysia are the only ones really involved in CSR projects (Amran & Siti-Nabiha, 2009; MIA, 2005; Bursa Malaysia, 2007; PM of Malaysia 2007, 2008, 2009, 2010).

Furthermore, Ng (2008) reported that the Malaysian companies are far behind international standards when it comes to implementing CSR, with nearly two-thirds of those surveyed ranking between poor and average categories.

The success of any company or organization depends on many variables, such as work place (Fulmer et al., 2003), capital structure (Shyan et al., 2008), information technology (Melville et al., 2004), corporate governance (Brown & Caylor, 2003), HRM (Agrawal, 2007), trust (Prema & Ashwani, 2004), employees (Rupp, Ganapathi, Aguilera, & Williams 2006; Fulmer et al., 2003), ownership (Nazli & Ghazali, 2007; Wang & Wong, 2008), customer relation management (Coltman et al., 2011) and corporate social responsibility (Branco & Rodrigues, 2006; McGuire et al., 1988; Johnson & Greening, 1999). Thus it is very important to review the performance from time to time due to changes in the environment (Najmi, Rigas & Fan, 2005). Performance is also necessary for the management in its planning and controlling process (Chan, Qui, Chan, Lau & Ip, 2003).

1.2 The Link Between CSR and Company Performance

Many studies have reported that socially responsible activities by firms have a positive association with a firm's performance, even though the results are decidedly mixed. Carroll and Buchholtz (2003) suggest three possible causal relationships between corporate reputation, CSR, and a firm's performance. The first causal relationship is that good corporate performance produces a good CSR standing, and, in turn, generates a good reputation. This good reputation enhances performance and leads to an improvement in CSR. Carroll and Buchholtz (2003) indicate that this relationship has been examined extensively over the past twenty years with equivocal results, with some supporting and some contradicting the suggested causal inference. The second causal relationship suggests that good corporate financial performance leads to a good corporate reputation and results in good CSR. Preston and O'Bannon (1997) found that financial performance either proceeds, or occurs more or less simultaneously with good CSR. The third relationship between these variables suggests an interactive two-way relationship between variables. From this perspective, the three variables interact with each other and it is therefore not possible to identify a primary causal variable. However, Coldwell (2001) suggests a further

fourth perspective maintaining that good corporate social performance generates a good corporate reputation, ultimately leading to enhanced firm performance. Empirical evidence for this relationship is scarce, and, in most cases, circumstantial (Coldwell, 2001). Therefore, this present paper explores the fourth relationship, researching if reputation plays a role as a partial mediator in the CSR-firm performance link.

According to the reputation perspective, CSR has external effects on corporate reputation. The financial benefits may arise from the positive reputation created by corporate involvement in socially responsible causes. Scholars have suggested that firms adopting socially responsible actions may develop a more positive reputation, yielding a competitive advantage. Serving the implicit claims of major stakeholders enhances a company's reputation in a way that has a positive impact on its financial performance; conversely, disappointing these groups may decrease a company's reputation, which, in turn, results in a negative financial impact.

The social impact of stakeholder theory implies that an external reputation (favorable or unfavorable) develops first, and financial results (favorable or unfavorable) follow. In sum, serving stakeholders' needs improves the company's reputation, which can improve its performance and market position. The present study adopts an alternative approach to generating research questions based on a contingency approach in the relationship between CSR and company performance, since there are potentially many factors that mediate the link between CSR and company performance (Margolis & Walsh, 2003).

2. Research method

A questionnaire survey was carried out to collect the view of top management in Malaysian public listed companies. As the purpose of the study is to examine the effect of CSR on company performance in Malaysian public listed companies, our target population comprised all of the public listed companies in Malaysia without referring to any specific group of companies. Although the Malaysian public listed companies have a combined population of 941 companies, due to time constraints, a total of 225 companies were selected as our respondents, with 200 companies fully participating in the study. The questionnaires were conveniently distributed to top management in different states in Malaysia including Selangor and Kuala Lumpur. Roscoe (1975) recommended that sample sizes larger than 30 and less than 500 are appropriate for most studies. The obtained data were analyzed using the SPSS software version 17.0 and structural equation modeling (SEM).

2.1 Measurement of Variables

A questionnaire was developed that measured the CSR of the PLCs in Malaysia, company performance and the mediating effects of reputation. This questionnaire was initially developed using measures taken from previous studies (Carroll, 1979 & 1991; Sin et al., 2005; Olalekan, 2011; Kim, 2001; Nguyen & Leblanc, 2001). Before the questionnaire was finalized, it was pretested so that any weaknesses and problems in the questions, as they relate to the research setting, could be identified. To enable the pretesting, 40 of the top management from 40 different companies were contacted by telephone and 30 of them agreed to participate in the pre-test. The principal researcher then made appointments with them. As an outcome of this process, the questions were modified in order to better reflect the local cultural situation. A final questionnaire was then prepared for data collection.

The measures for CSR in the present paper were adopted from Carroll (1979, 1991). In the present paper CSR consists of four dimensions: ethics, legal, economic and philanthropic. Each dimension has 7 items totaling 28 items. The measure for company performance in the present paper has 6 items adopted

from Sin et al. (2005) and Olalekan (2011). The measure for reputation in the present paper has 5 items adopted from Kim (2001) and Nguyen & Leblanc (2001). A 5-point Likert scale “strongly disagree = 1, to “strongly agree = 5” was used.

All measures used were assessed for internal consistency as well as convergent and discriminant validity. The internal consistency results indicate that the consistency for each measure is high given the level of the Cronbach scores achieved (Nunnally 1988).

3.Results and Discussion

Confirmatory factor analysis was also used to determine if the data included in each of the four components of CSR, company performance and reputation models is a strong fit. The results are shown in Figures 1, 2 & 3.

Thus, confirmatory factor analysis of CSR (Twenty-eight items), after having done the confirmatory factor analysis the results showed that nine items (ECO1, ECO7, LEG2, LEG4, ETH1, ETH2, ETH7, PHI2 and PHI6) were deleted, while the other remaining Nineteen items (ECO2, ECO3, CO4, ECO5, ECO6, LEG1, LEG3, LEG5, LEG6, LEG7, ETH3, ETH4, ETH5, ETH6, PHI1, PHI3, PHI4, PHI5 and PHI7) were analyzed and showed that all nineteen items have a factor loading of more than .30. This suggests that the items correlated significantly to the factor itself with factor loadings ranging more than .30 (Hair et al, 2006), as shown in figure a.

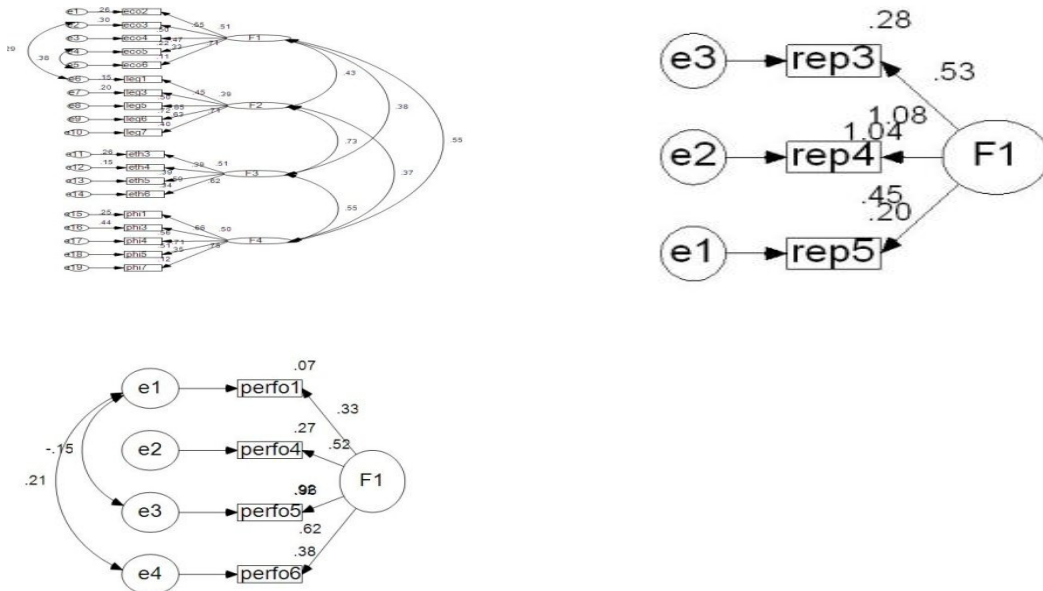


Fig 1 (a). CFA for CSR; (b) CFA for reputation; (c) CFA for company performance

Reputation has five items. Out of the five items, two items (REP1 and REP2) were deleted during the confirmatory factor analysis and three items (REP3, REP4 and REP5) remained to be analyzed, as shown in figure b. All three items have a factor loading of more than .30. This suggests that the three items correlated significantly to the factor itself with factor loadings ranging more than .30 (Hair et al., 2006).

In this respect, company performance has six items, the results of the confirmatory factor analysis reveals that two items (PERFO2 and PERFO3) were deleted after having conducted the confirmatory factor analysis. The remaining four items (PERFO1, PERFO4, PERFO5 and PERFO6) indicated a factor

loading of more than .30. This proposed that the four items correlated significantly to the factor itself with factor loadings ranging more than .30 (Hair et al., 2006), as shown in figure c.

In Table 1 the CSR, company performance and reputation outcomes are shown. As can be seen, the fit between the four components of CSR (legal, ethics, economic and philanthropic) is good as indicated by GFI = 0.872, TLI= 0.817, and CFI = 0.846. The GFI, TLI, and CFI values are higher than the threshold values suggested by Hair et al. (1998). In addition, the most widely used CMIN/DF measure, with a score of 2.001 also suggests a very good fit. As can be seen, the fit for company performance and reputation is perfect as indicated by GFI, TLI and CFI.

As Carmines and McIver (1981) have suggested, the smaller the value, the better the fit. Furthermore, the Normed Fit Index (NFI) shows a good fit since values greater than 0.80 are desirable (Chakraborty et al., 2008). Finally, the Root Mean Square Error of Approximation (RMSEA) with a score of 0.080 also suggests that the model fit is acceptable (Browne & Cudeck 1993). Considering all these outcomes, it was concluded that the model fits the data well given that it exceeds all the basic requirements for goodness-of-fit measures.

Table 1: CFA of All Measurement and Structured Model (Goodness-Of-Fit indices) (N = 200)

	DF	CMIN	GFI	CFI	TLI	NFI	RMSEA
CMIN		/DF					
288.199	144	2.001	.872	.846	.817	.840	.071
0	0	.000	1.00	1.00	1.00	1.00	.000
0	0	.000	1.00	1.00	1.00	1.00	.000

Note: DF = degree of freedom, CMIN = chi-square fit statistics, NFI = normed fit index, GFI = goodness of fit index, CFI = comparative fit index, TLI = Tucker Lewis Index

3.1 Hypothesis Testing of Generating Model

Jöreskog & Sorbom (1993) pointed out that the re-specification (generating model) might be either theory or data driven; the ultimate objective is to find a model that is both substantively meaningful and statistically well-fitting. From the hypothesized model, deletions of modification indices (MI) were used to achieve GOF of the generating model (GM).

As shown in figure 2, the hypotheses test, in determining the significance of each path coefficient, estimate of regression weight, standard error of regression weight, and critical ratio for regression weight (C.R.= dividing the regression weight estimate by the estimate of its standard error gives) were used.

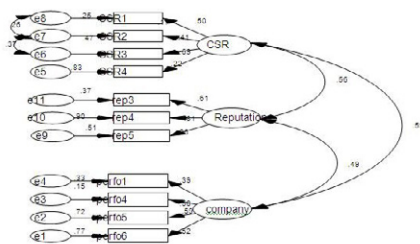


Fig 2. Generating Model with Standardized Estimates

Table 2: Hypothesized model (Goodness-Of-Fit indices)

	DF	CMIN	GFI	CFI	TLI	NFI	RMSEA
CMIN /DF							
	39	2.134	.931	.919	.886	.862	.075

Note: DF = degree of freedom, CMIN = chi-square fit statistics, NFI = normed fit index, GFI = goodness of fit index, CFI = comparative fit index, TLI = Tucker Lewis Index.

Table 2, shows that the GFI results of the endogenous model are .931, and RMSEA is .075. Additionally, the p-value is 0.000, which means that the value of the overall model has been achieved according to the recommended values (Hair, 2006), which is similar for AGFI of .883, CFI of .919, TLI of .886, NFI of .862, and CMIN/DF of 2.134 < 3 (Hair et al., 2006).

Table 3 shows that perceived CSR has a positive direct impact on company performance ($\beta= 0.340$, C.R= 2.450, P= 0.014) – H1 is supported. CSR has a positive direct impact on reputation ($\beta= .601$, C.R= 4.741, P= ***) – H2 is supported. Company performance has a positive and direct effect on reputation ($\beta= -.216$, C.R= 1.816; P= 0.069) – H3 is rejected.

Table 3: Direct Hypotheses Testing Result of Generating Model

	From	To	Estimate	SE	C.R	P
H						
H1	CSR	Comp	.340	.139	2.450	.014
H2	CSR	Rep	.601	.127	4.741	***
H3	Rep	Comp	.216	.119	1.816	.069

Note: Rep = reputation, Comp = company performance.

Table 4: Mediating effect of reputation

From	Mediation	To	Direct Effect	Indirect effect	Total Effect	Mediating
CSR	Rep	Comp	.340	.128	.468	Partial mediate

Note: Rep = reputation, Comp = company performance.

For this paper, the researcher tested the mediating effects of reputation in the relationship between CSR and company performance; the results are shown in table 4. The direct effect (.340) was greater than the indirect effect (.128), as shown in table 4. However, the direct effect was significant and the path from CSR to reputation was also significant. This indicates that reputation partially mediates the relationship between CSR and company performance. To conclude, this finding supports H4.

4.Opportunities for Further Research

This study only focused on public listed companies in Malaysia. Other companies, such as small and medium size, and private companies, were excluded from the study. There is now an opportunity to research CSR in this broader sector. In particular, it would be interesting to undertake research on the small and medium size given the increased level of competition.

Brine et al. (2006) conducted a study to discover the relationship between CSR and company performance by determining the presence of CSR features on public listed companies. They found that companies differ in the presence of CSR features, and that there is a positive relationship between CSR and company performance.

Many companies believe that they will be successful if they invest more money by adopting CSR (Djordjija & Nigel, 2003; Sun-Tzu, 2008; Rahizah, Farah & Kasmah, 2011). The impact of CSR on company performance is real and so are the problems for certain organizations in terms of successful implementation (Dilek & Kristoffer, 2007; Margarita, 2004). Orlitzky (2005) argues that organizations of all sizes may benefit from CSR financially; this paper has only been conducted to investigate CSR in

public listed companies. Therefore, future studies should increase the sample size to be more comprehensive and target other sectors, such as private company and SMEs.

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