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The Effect of CSR Activities towards Manufacturing Industry in Malaysia

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ABSTRACT

Corporate social responsibility (CSR) has become increasingly important to the competitiveness of all businesses. Despite the widespread of the practical and academic interest in CSR especially in the area of human resource and its impact on the business performance, few theoretical and empirical contributions could be found. The primary objective of this study was to identify and empirically test the factor influencing the manufacturing organization to implement CSR activities and the effect on their business performance. The outcomes of this study will assist the manufacturing organization to effectively and responsibly manage their CSR activities to increase their competitiveness. A structured, self-administered questionnaire was distributed to 100 top managers and first line managers who work in the manufacturing organization. The respondents were identified by means of a purposive sampling technique. A descriptive analysis was carried out, and Cronbach's alpha coefficients calculated to determine the reliability of the measuring instrument of each question. Binary logit regression was used to determine the factor that influence manufacturing organization to implement CSR activities on their business performance. The empirical results of this study indicate that employee talent, growth, engagement and availability of solid CSR structure have a strong influence on manufacturing decision.

Keywords: Business performance, corporate social responsibility, manufacturing industry, top management

Introduction

Nowadays, corporate social responsibility (CSR) has moved from ideology to reality and is considered as an important dimension of contemporary business practice that all types of businesses and sizes need to understand and address (Charitoudi, Sariannidis & Giannarakis, 2011). As global competitiveness continues to follow momentous trends, CSR is proposed as an effective and efficient strategy for invigorating the business performance of an organization (Porter and Kramer, 2006).

The terminology surrounding the concept of CSR is dire and several researchers have attempted to catalogue it (Meehan, Meehan and Richards, 2006). According to Carroll's (1979), CSR involve the social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time.

Multinational corporations (MNCs) are powerful players in the world economy and often have a greater potential to induce change than governments do (Deresky, 2000). It is argued that since they operate in a global context multinational corporations should play a proactive role in tackling worldwide social and economic problems and that they should be concerned with the welfare of both its home and host countries (Schouten, 2007). Johnston (2001) states that, in the balance between government regulation, business responsibility and civil society pressure the multinational corporations can and must provide the shared reference-point in responsible employment throughout the world. Multinational corporations have been found to

be the highest CSR performers, especially in the telecom, food and drug retailer, mining and tobacco sectors, because they receive the most focus from the public and non-governmental organizations (Hoskins, 2005).

Many big companies try to integrate CSR into their branding and promotional effort but in vain due to poor factoring of decision and alignment with company's path for success. Millions of dollar were spent to align CSR into their reputation, products and services yet the strategic CSR approach was either inconsistent or abandon due to fear of failure. Most company forget that marketing efforts should not focus on transaction but the emphasis should be on relationship. For successful branding of CSR, firm need to be consistent in their message to their stakeholders.

Previous studies on CSR have largely focused on the effects of CSR on firm performance (Maignan and Ferrell, 2001) and several studies have shown positive relationships between a good CSR reputation and certain measures of financial success (Orlitzky, Schmidt and Rynes, 2003). In most cases a positive relationship has been found, however the multiple dimensions approach may have masked the individual underlying dimensions (Zsolnai, 2006). Though, according to Smith (2003), the current focus on CSR implies that the debate has moved from whether to engage in CSR, to how. Therefore, in this study, before we can understand the impact of CSR on business performance, it is important to know the factors that influence the organization to implement the CSR activities especially in manufacturing industry.

Objective

To determine the factors that influence the organization to implement the CSR activities especially in manufacturing industry.

Research Question

What are the factors that influence the organization to implement the CSR activities especially in manufacturing industry?

Methodology

Conceptual Framework

CSR can be equated define as the notions of giving back to the society, treating employees fairly and offering quality products and services to the consumer (Turyakira, Venter and Smith, 2014). The common CSR activities in an organization include sponsorship programmes, career development, employees training, waste recycling and participation in community activities (Suprawan, De Bussy and Dickinson, 2009).

In line with the previous research, the study had identify six independent variables which are business performance, employee talent, growth, engagement, individual development and CSR structure. These factors can individually lead to improve the business performance of manufacturing companies in the long term in terms of increased sales volume, growth rate, market share and profitability (Jamaludin and Hasun, 2007; Mandl and Dorr, 2007; Salavou and Avlomtis, 2008). The Dependent variable of this study is manufacturing organization intention to study the impact of CSR activities that impact on their business performance.

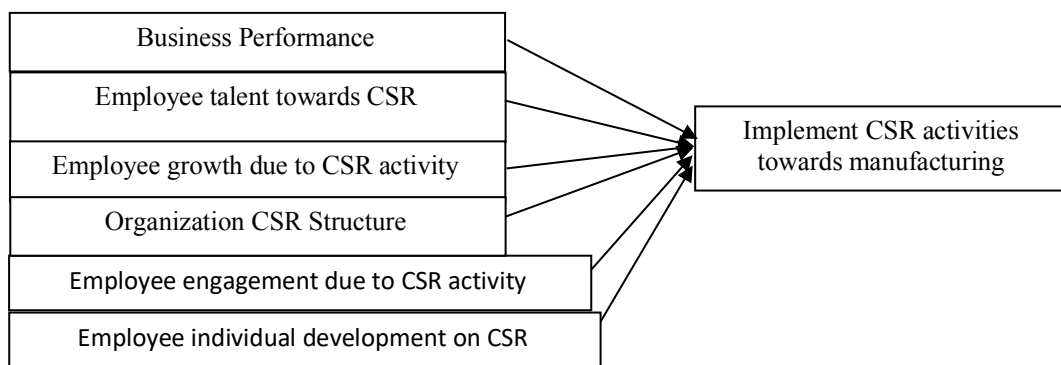


Figure 1: Conceptual Framework- Implement CSR Activities towards Manufacturing Organization

Sample and Questionnaire

The survey was done in Negeri Sembilan, Malaysia. In this research, the target population was the 1st line managers and the top managers from 5 selected manufacturing industries from Negeri Sembilan city. The selected companies are 3M Malaysia Seremban Sdn.Bhd., On Semiconductor (M) Sdn. Bhd., NXP (M) Sdn. Bhd., Xyratex (M) Sdn. Bhd. and Samsung SDI (M) Sdn. Bhd. A total of 100 employees were interviewed using structured questionnaire. A Likert scale of 1 to 5 (1 represent strongly disagree and 5 represent strongly agree) was used to measure organisation intention to study CSR activities.

Method of Analysis

Descriptive statistics, reliability test and binary logit regression were used to analyze the information gathered from the questionnaire. Descriptive analysis was used to describe the population in this study. Reliability analysis was carried out to test the internal consistency of a measure (Field, 2005). Binary logit regression analysis is conduct to test the factor that influence organization intention to study the impact of CSR activities on business performance. Therefore, to accomplish the main purpose of this study, a model was employed:

$$\ln \left(\frac{\pi}{1-\pi} \right) = \beta_0 + \beta_1 \chi_{\text{employee talent}} + \beta_2 \chi_{\text{individual development}} + \beta_3 \chi_{\text{employee growth}} + \beta_4 \chi_{\text{employee engagement}} + \beta_5 \chi_{\text{firm performance}} + \beta_6 \chi_{\text{Structure of CSR}} + e_i$$

Where β_0 represent constant and β_i represent the coefficient of X_i .

Findings

The Cronbach’s alpha value which gets from reliability analysis was 0.972 and this showed that there was consistency among the conceptual framework items and therefore the model is fit for this study.

Socio-demographic Information

Table 1 shows the socio-demographic profile of the employees. The result showed that majority of employees were females (65 percent) where 43 percent were Chinese, 31 percent were Malay and 26 percent were Indians. In terms of monthly income, the result shows that 60 percent had monthly income between RM 3001 to RM 6001 and only 40 percent earned less than RM 3000. Majority of the employees have at least a bachelor degree (69 percent), only 16 percent of the employees were master holder and 15 percent of the employees have diploma. With regards to age, the result showed that most of the respondents were between 31 to 40 years (40 percent), while 25 percent was between 20 to 30 years old and 41 to 51 years old and

only 10 percent were more than 51 years old. In term of working experienced, 35 percent of the employees have 1 to 2 years and 3 to 4 years of working experience, 15 percent of the employees have at least 5 to 6 years of working experienced and 10 percent have 9 to 0 years of working experienced. Only 5 percent of the employees have at least 10 years of working experienced.

Table 1
Demographic Profile of Respondents (n=100)

Characteristic	Percentage	Characteristic	Percentage	Characteristic	Percentage
<i>Gender</i>		<i>Race</i>		<i>Working Experienced</i>	
Male	35	Chinese	43	1 – 2	35
Female	65	Malay	31	3 – 4	35
		Indian	26	5 – 6	15
<i>Age</i>				7 – 8	0
20 – 30	25	<i>Education level</i>		9 – 10	10
31 – 40	40	Diploma and below	15	10 years and above	5
41 – 50	25	Bachelor	69		
51 – 60	10	Master	16	<i>Monthly Income</i>	
				Less than 3000	40
				3001 - 6000	60

Binary Logit Regression Analysis

Based on the statistically significant coefficients, an organization which consists of more talent employees on implementing CSR activities is an important determinant on business performance and the effect is positive (Table 3). This finding indicated that the organization which have more talent employees were 29.123 times more likely agree that there is a huge effect of whether or not to implement CSR activities than organization which have less talent employees. The talent of the employees in this study refer to their communication skills among workers, create friendly working environment, creative decision making, share attitude among co-workers and skills to train other employees.

The employee who are willing to growth together with the organization influences the probability of organization to implement CSR 13.586 times more. It means that an increase in employees' growth such as willing to adopt to changes and able to handle difficult situation will increase organization intention implement CSR activities. Estimate coefficient for employee engagement is positive and significant at 90 percent level of confidence. This shows that employee who have high engagement with their company, the likelihood of the organization intention will increase 9.004 times than the organization that have low employee engagement. This is because if the employee engagement is low, employee retention rate will increase and the organization need to give time and effort to train the new employee again. CSR Structure are an important indicator of organization to implement CSR activities and try to implement it. The likelihood of implement CSR activities intention among the organization, who have a solid structure of CSR in their organization, will increase 7.015 times than the organization who don't have any structure for CSR.

In order to assess how well the model fits the data, Hosmer and Lemeshow test was analysed. As shown in Table 3, the value for Hosmer and Lemeshow test was 0.119. The value was not significant and it shows the model is fit for this study. To test whether there is collinearity in the data, tolerance and VIF were use in this study. The result shows that VIF

values are all well below 10 and the tolerance statistics all well above 0.1; therefore; there is no collinearity within the data.

Table 3

Estimates Logit model for Manufacturing Organization Intention to Implement CSR Activities

Variables	Estimated Coefficient	Standard Error	Significant Level	Exp(B)	Collinearity Statistics	
					Tolerance	VIF
Employee Talent Individual	3.372	1.316	0.010**	29.123	0.250	4.001
Development	-1.809	1.380	0.190	0.164	0.377	2.651
Employee Growth	2.609	0.932	0.005***	13.586	0.375	2.665
Employee Engagement	2.198	1.265	0.082*	9.004	0.181	5.528
Business Performance	-1.417	1.071	0.186	0.242	0.574	1.742
CSR Structure	1.948	0.742	0.009***	7.015	0.933	1.072
Constant	-14.818	5.438	0.010	29.123		
-2 Log Likelihood	73.643		Nagelkerke R Square		0.596	
Cox and Snell R Square	0.435		Hosmer and Lemeshow Test		0.119	

***Statistically significant at 0.01 level, **at the 0.05 level and *at the 0.10 level

Conclusion

Most firm's aim to achieve growth, profitability and sustainability for the business venture and CSR strategies seems to be the viable option in the 21st century. In order to incorporate CSR strategy into firm's objective, the proposed CSR initiatives need to be clear, compelling, align with internal process such as marketing, manufacturing sales and so forth, and in conjunction with the firm's overall goal and core competencies. In addition, the initiative to create a CSR strategy must be well communicated to the all the employees to ensure full engagement, commitment and support from staff. It is suggest that a firm may need to go through these processes when developing CSR strategy:

- 1) Determine business objectives and priorities and develop CSR strategy.
- 2) Align CSR strategy with the firm's core competencies.
- 3) Integrate CSR into the culture, governance, strategy formulation effort of the company, management and performance system.
- 4) Develop clear key performance indicator to measure the impact of CSR strategies.

Managers need to realize that the vision and values are at the core of CSR. The company's commercial values are the base for considering CSR values but the managers need to take a step back and see the objective external view. Managers need to identify the different stakeholders and the company impact on those in order to decide on and incorporate the CSR values. On an international level several different ethical codes have emerged, offering guidance to companies in issues such as economic, legal and political involvement, technology transfer, environmental and consumer protection, employment practices and human rights (Cullen and Parboteeah, 2008). Some elements for managers to ensure that CSR is integrated in the business is to have a range of CSR key performance indicators that are reviewed regularly at a main board level, include CSR-related performance incentives in the pay structure to show the importance of CSR to both the business and the individual. Then CSR should also be included in the business planning and review process so that it is constantly considered and not an add-on.

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