An empirical investigation into the major drivers of corporate social responsibility

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Abstract

This paper reviews and examines major drivers that were able to compel Malaysian organizations to adopt corporate social responsibility (CSR) practices. An instrument consisting of CSR drivers and CSR practices was developed and a survey was conducted targeting Malaysian consumers with a sample of 1440 respondents that were selected across 12 states of West Malaysia. The results revealed that all six drivers had an effect on CSR practices which implied that these drivers were able to influence organizations in Malaysia to adopt CSR practices. It can be concluded that customers generally expect organizations to commit themselves to CSR

Keywords: Corporate, social, responsibility, CSR, drivers.

Una investigación empírica sobre los principales impulsores de la responsabilidad social corporativa

Resumen

Este documento revisa y examina los principales impulsores que pudieron obligar a las organizaciones malayas a adoptar prácticas de responsabilidad social corporativa (CSR). Se desarrolló un instrumento que consta de conductores de CSR y prácticas de RSE y se realizó una encuesta dirigida a consumidores malayos con una muestra de 1440 encuestados seleccionados en 12 estados del oeste de Malasia. Los resultados revelaron que los seis conductores tuvieron un efecto en las prácticas de RSE, lo que implicaba que estos conductores podían influir en las organizaciones de Malasia para adoptar prácticas de RSE. Se puede concluir que los clientes generalmente esperan que las organizaciones se comprometan con la RSE.

Palabras clave: corporativo, social, responsabilidad, RSE, conductores.

1. INTRODUCTION

In the past few decades, many organizations have jumped onto the corporate social responsibility (CSR) bandwagon and paid more attention towards shareholders, potential investors, managers, employees, customers, business partners, contractors, the natural environment and the communities within which they operate. CSR advocates the idea that organizations need to show increased care and concern towards all their stakeholders and the wider environment within which they inhabit. Freeman (1984) argued that systematic attention to stakeholder interest is critical to a firm's success. This creates a theoretical basis for corporations to operate by taking into

account that their decision will affect society in the same way the societal decision will affect them.

In keeping with the growing importance of CSR around the globe, the Malaysian government is one of the few in Asia to have pushed the CSR agenda ahead by way of enacting CSR reporting requirements for public limited corporations (PLC) which have been implemented since 2007. Bursa Malaysia, a regulatory body governing all PLC's in Malaysia developed a CSR reporting framework in 2006 requiring PLC's to disclose their CSR initiatives. The CSR framework acts as a guideline for Malaysian PLC's and covers four main areas for CSR practice which includes the environment, community, marketplace, and workplace. There are many reasons as to why organizations pursue CSR strategies which include, reputation management, government regulations, competitive advantage, stakeholder pressures, critical events, and top management pressures.

The drivers of CSR could either be seen in the form of external drivers such as communities and societies with general expectations or governments with explicit requirements of social legitimacy, or internal drivers, such as use of CSR as management instrument, integration of CSR in core business and internal stakeholders, such as moral and relational needs of employees. However, Taal & Broomes (2019) argue that it is the pressure coming from external stakeholders that tend to coerce organizations to take action on poor practices associated with a business. Of interest, then, is what shapes a firm's CSR response arising from stakeholders' demands. Haigh and Jones

(2006) identified and critically reviewed six factors that could influence organizations to undertake CSR. These factors include intra – organizational factors, competitive dynamics, institutional investors, customers, government regulators, and non – governmental organizations.

These factors were however merely reviewed vis-à-vis relevant literature and isolated cases which were not substantiated with empirical research evidence. The study of Haigh and Jones (2006) did not provide adequate validation thus creating a need for empirical research to prove just that. There have been numerous CSR studies in Malaysia and Asia on various CSR related themes, but research focusing on driving forces of CSR have been severely lacking. Although there is abundant theoretical and empirical literature analyzing the factors that determine CSR, scholars agree that a better understanding of effective drivers and barriers is required. According to some scholars, there seems to be too much emphasis on examining contents and outcomes relating to CSR initiatives so much so that studies relating to internal factors that might shape or drive CSR activities have not received much attention.

There is undoubtedly a growing interest among managers and executives of multinational firms about the antecedents and significance of CSR. While there are many other drivers that are consistent with promoting CSR related commitments, this study focuses on select drivers of CSR as proposed by Haigh and Jones (2006) that will be empirically tested and validated in the Malaysian

context. The study aims to solicit responses from consumers (in Malaysia) who are undoubtedly one of the most important stakeholders. The researcher believes that this study could reveal interesting results which could pave the way for decision makers and organizational leaders to better understand the driving forces influencing organizations to undertake CSR practices in Malaysia.

Apart from governments push for CSR and increasing awareness levels of CSR among stakeholders in Malaysia, it will be interesting to examine factors that could compel Malaysian organizations to adopt CSR practices. Since Malaysia is recognized as one of the most culturally diverse countries in Asia, the results may offer new insights in line with the views of Maignan & Ralston (2002) that CSR behaviors amongst organizations can differ across countries and much more research is needed to recognize why it is as such.

2. METHODOLOGY

2.1. Data Collection

This study used Malaysian consumers as the main sample population of the study. As Malaysia is a culturally diverse nation, a sample of 1440 respondents were selected based on a quota sampling plan involving the main ethnic groups which comprised Malays (30%), Chinese (30%), Indian (30%) and other ethnic minorities (10%) in all 12 states of West Malaysia. According to Laudal (2011), in societies

that are increasingly heterogeneous due to changing demographics, quota sampling can be expected to be used more frequently. Given the fact that Malaysia is a multi-racial country, there could be significant heterogeneity across consumers in their reactions towards CSR practices. The locations where data were collected included, government schools, government hospitals, government administrative offices, private corporations, factories, banks, telecommunication service centers, retail centers, and shopping centers.

A total of 909 usable questionnaires were obtained for analysis. Data collection was carried out from April 2017 till the end of July 2017. Twelve research assistants were engaged to distribute the questionnaires to respondents.

2.2. Questionnaire Development

Based on the theoretical framework, there are a total of seven constructs; six independent variables and one dependent variable in this study. The independent variables are made up of Intra – Organizational Factors (IO), Competitive Dynamics (CD), Institutional Investors (II), Customers (C), Government Regulators (GC) and Non-Governmental Organizations (NGO), while the dependent variable is CSR. Measures for the independent variables were developed by the researcher based on the key issues and themes corresponding to the respective variables. There were a total of 22 measures for independent variables. As for the dependent variable, there were a total of 30

measures representing six dimensions of CSR that were developed based on the amalgamation of three CSR models namely, Carroll's (1991) CSR Pyramid, Laudal's (2011) CSR Model and Bursa Malaysia's CSR framework.

Measures for the dependent variable were adapted from Laudal (2011), and Bursa Malaysia's CSR Framework Characteristics. Composition of measures and references for the constructs of the study are presented in table 1. The questionnaire was measured with a 5 point likert scale. Content and face validity for all the measures in the questionnaire was conducted with the help of subject matter experts.

Table 1: Questionnaire (Constructs and References)

CONSTRUCT	MEASURES	REFERENCES
DRIVING FORCES OF CSR		
Intra-Organizational Factors (IO)	4	Self – developed
Competitive Dynamics (CD)	5	
Institutional Investors (II)	3	
Customers (C)	3	
Government Regulators (GR)	3	
Non – Governmental Org (NGO)	4	
CSR DIMENSIONS		
Value Creation (VC)	5	Adapted from Aupperle (1984) based on Carroll's CSR pyramid
Legal Compliance (LC)	5	
Good Governance (GG)	5	Adapted from the key indicators of Visser's (2010) CSR 2.0 Model.
Environmental Integrity (EI)	5	

| Philanthropy Engagements (PE) | 5 | Adapted from Aupperle (1984) based on Carroll's CSR pyramid. |
| Workplace Concerns (WC) | 5 | Adapted from the key indicators of Visser's (2010) CSR 2.0 Model and Bursa Malaysia's Framework Characteristics |

3. DATA ANALYSIS

Data were analyzed using SPSS version 22. All the measures and scales were first evaluated using reliability test and exploratory factor analyses (EFA) in order to assess the reliability, uni-dimensionality, and validity of all the measures. To assess the initial reliability of the measures, Cronbach's alpha was used. Cronbach's alpha for all the constructs was above 0.70. The CFA suggested deleting two measures; one measure from legal compliance and one from workplace concern as they registered a loading value below 0.45 and cross-loadings above 0.30. After these deletions, EFAs of all the constructs (measures) produced an acceptable fit to the data. All factor loadings were above 0.45 and were statistically significant. Regression analysis was carried out to determine the influence of a set of independent variables on the dependent variable, i.e., how much of the variance of the dependent variable is explained by a set of predictors, in this case, being independent variables.

The regression analysis is also used to test the direct relationships depicted in the theoretical framework which is presented and discussed in the following section.

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4. RESULTS

Based on the results of the regression analysis presented in table 2 below, all CSR drivers were found to have a significant effect on CSR practices. All CSR drivers were found to be significant at a 1% significance level (Sig = .000) with positive beta scores. These results give support to all the hypotheses and meant that all the CSR drivers (intra − organizational practices, competitive dynamics, institutional investors, customers, government regulators, and non-governmental organizations) can influence organizations to adopt CSR practices. Therefore all six hypotheses were substantiated and hence accepted. Deducing from the Beta, customers had the most significant effect on CSR practices (β = .19), followed by non-governmental organizations (β = .17), competitive dynamics (β = .16), government regulators (β = .15), institutional investors (β = .139) and intra − organizational factors (β.130). The R square was 51.0% which means that all the six drivers can explain 51.0% variance towards CSR practices.

In other words, it implies that the explanatory power of all the six drivers of CSR put forth in this research was 51.0%. On the flip side, this indicates that there are other factors or other drivers that may explain the remaining 49.0%. The VIF (1 − 10), tolerance (0.1 − 1) and the condition index was within an acceptable range. Hence, there was no multicollinearity problem in the regression model. The F value was large (155.90) and found to be significant at a significance level of 1% (Sig F = .000). The Durbin Watson test for autocorrelation is a statistic that indicates the likelihood that the deviation (error) values for the

regression have a first-order auto-regression component. It is generally accepted that there is no serial correlation with values between 1.5 to 2.5. Thus, the results of the Durbin Watson of 1.715 shows that this model is free of serial correlation. All in all, the regression model used for the analysis was fit or in other words, it conclusively projects that there was an adequate model.

Table 2: Results of Regression Analysis

Variables	Beta	T – Ratio	Sig t.
Intra – Organizational Factors	.130	4.442	.000
Competitive Dynamics	.165	5.362	.000
Institutional Investors	.139	4.522	.000
Customers	.198	6.777	.000
Government Regulators	.152	5.064	.000
Non-governmental Organizations	.174	5.876	.000
R Square	51.0%		
Adjusted R Square	50.7%		
F	155.90		
Sig F	.000		
Condition Index	47.366		
Durbin – Watson	1.715		

5. CONCLUSION

The results of the study showed that all six drivers had an effect on CSR practices and hence were capable of compelling organizations to adopt CSR practices in Malaysia. It can be concluded that customers generally expect organizations to commit themselves to CSR, which is

consistent with the findings of Pomering and Dolnicar (2008) who reported that consumer expects corporations to provide information about what they do and will support corporations that show a serious concern towards CSR. The significant effect of the customer as a solid pressure group found in this study coincides with the study of Kusyk and Lozano (2007) that found customers were the most frequently picked drivers as external stakeholders. The results also seem to be in sync with the views of Susnie and Vanagas (2007) who asserted that customers are the most important stakeholder group upon whose satisfaction other stakeholder's interest can be satisfied.

The findings imply that customers by way of their choices and demands are able to exert pressure on organizations to adopt CSR practices. This is corroborated by the views of Laudal (2011) that ethical consumerism is on the rise and that people are increasingly demanding pro-CSR goods and services and are especially concerned about whether organizations are adopting environmentally friendly practices. As for competitive dynamics, the results indicate that on the whole, competitive dynamics were significant in compelling organizations to adopt CSR practices. In a world of stiff competition, organizations often emulate each other and try to go beyond each other's strategies in their quest of outplaying their competitors. In the context of CSR, it is no different. The actions of the market leader can influence competing organizations to follow suit which Misani (2010) refers to as herd behavior and bigger firms, in particular, can become role models to smaller firms.

The findings are also congruent with the views of Laudal (2011) that CSR initiatives are often undertaken by organizations as a strategy to flourish in a highly competitive business environment. Government regulators in this study were found to have a significant effect on CSR practices. Regulations in Malaysia generally require organizations to have good governance under corporate governance by-laws which are extended to the public – listed corporations. Othman et al. (2011) found that mandatory CSR reporting for public listed corporations in Malaysia have definitely pushed the CSR agenda ahead in Malaysia. The findings are consistent with the views of Aguilera et al. (2007) that legal forces are indeed one of the main drivers compelling organization to undertake CSR.

Institutional investors had a positive effect on CSR practices. The results seem to counter the opposing view of Cheng and Ahmad (2010) on the disbelief about the impact of socially responsible investment (SRI) on the future of CSR. By virtue of their financial muscle institutional investors are able to compel organizations to adopt CSR practices. This is corroborated by the views of Rech (2007) that the power of investors is on the rise for big – businesses whose strong demands and expectations must be met as a prerequisite of continued investment. However, this conclusion is very much based on the perception and views of Malaysian consumers who were the main respondents of this study. The views of institutional investors may give different interpretations as corroborated by Haigh and Jones (2006) that investors are yet to be convinced about the pay – the back potential of CSR.

The study found that Intra – organizational factors had a positive relationship with CSR practices. The results coincide with the views of Laudal (2011) that organizations should institutionalize and internalize CSR in order to achieve competitive advantage. Embedding CSR in an organization's culture and core values can help in shaping and transforming organizational behavior towards CSR practices. A commitment towards CSR stems from the top management and the collective behavior of all the managers in the organization. This is substantiated by Carroll (1991) who mentioned that managerial commitment is a key driver of CSR as well as the views of Laudal (2011) who asserted that a favorable management attitude towards CSR is essential in driving the CSR agenda within organizations.

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