The Importance of Corporate Social Responsibility On Company Performance Using the Partial Least Squares Approach

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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 dimensions and the company performance of public listed companies. 200 responses were received from a population that had already working in Malaysian public listed companies. Using the partial least squares equation modeling as the approach to examine the model. Furthermore this paper found a significant relationship between economic, ethic, philanthropic 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.

Keywords: Company performance, Corporate social responsibility, Malaysia, PLS.

1.0 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 has the best resulting success in business once it is 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 connections with the core business of the organization (Chatterji, Levine, & Toffel, 2009; Nurn & Tan, 2010) and among the most popular strategies, CSR (Rahim, Jalaludin, & Tajuddin, 2011; Saleh, 2009) has been confirmed by researchers to be a very important strategy that helps the companies to create and sustain their competitive advantage.

1.1 CSR in Malaysia

CSR is rapidly becoming a worldwide phenomenon, in Malaysia, according to some studies (Abu-Baker & Naser, 2000; Belal, 2001; Imam, 2000; Tsang, 1998; 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.

CSR practices in Malaysia can be view as defined by Carroll, (1991; 2003), who defined CSR in term of four corporate responsibilities which are bases on each other: 1) economic responsibility to be profitable; 2) legal responsibility to follow the law; 3) ethical responsibility; and 4) philanthropic responsibility to support diverse social, educational, environmental as well cultural objectives. In Malaysia most of the CSR activity by companies only emphasized on philanthropic responsibility.

Previous studies suggested that CSR could be successful as a practical strategy to be used by PLCs to improve their performance. Recent studies by Saleh (2009), and Rahim et al., (2011) on CSR in Malaysia also suggested that CSR could be an important strategy in helping companies to create and sustain their competitive advantage. Given this importance, there has been an extensive research work examining the impact of CSR practices on company performance. In relation to that, there has been an increasing number of leading organizations globally adopting strategies such as CSR and reputation as their foundation to create a competitive advantage (Classon & Dahlstrom, 2006; Rundell at al., 2008; Goi & Yong, 2009) and also to improve company performance (Cochran & Wood, 1984; Dentchev, 2004; Habidin et al., 2012).

However, previous literature on company performance showed that the research conducted in exploring the effects of CSR practices on company performance was extensive but with inconsistent results. The results found different impacts between CSR and company performance.

1.2 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 CSR and a firm's performance. The first causal relationship is that good corporate performance produces a good CSR standing. This good strategy 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 two variables interact with each other and it is therefore not possible to identify a primary causal variable.

This paper aims to examine the influence of CSR on company performance of Malaysian public listed companies. Apart from that, this study also aims to examining CSR as multidimensional concept by including economic, legal, ethic and philanthropic responsibility to validate the real practices of CSR in term of four dimensions in Malaysia. The results of this study will also be useful for business organisations in understanding Public listed companies priority for the CSR activities that they should be engaging in, and it will contribute to the existing literature.

1.3 Research Framework

Based on the literature review and the process used to develop the hypotheses of the study, Figure 1 illustrates the research framework and the hypotheses this study aimed to empirically test.
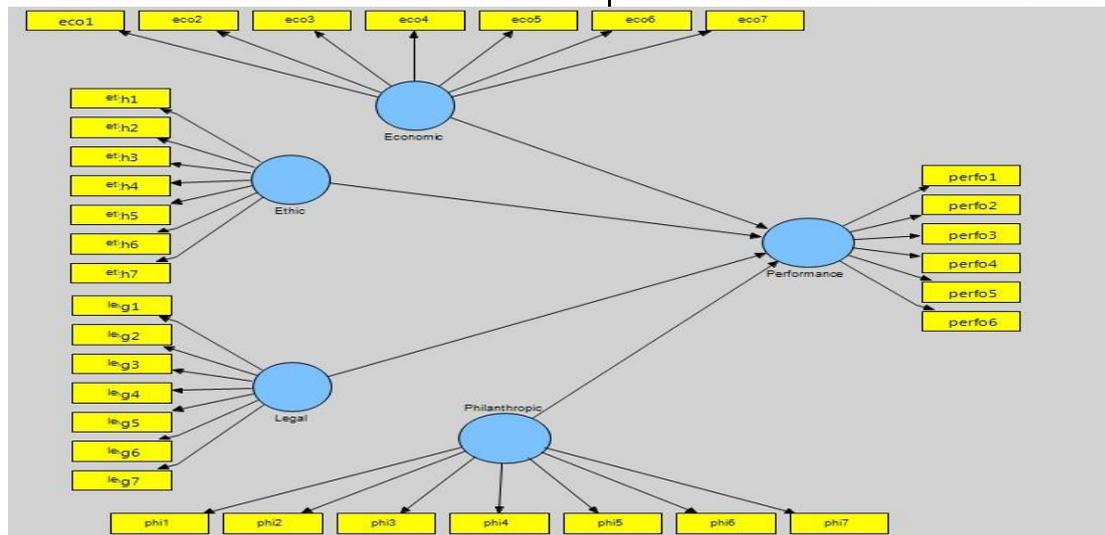

Figure 1: Research Framework

1.4 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 944 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 (1974) 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 version17.0 and Partial Least Squares (PLS).

1.5 Measurement of Variables

A questionnaire was developed that measured the CSR of the PLCs in Malaysia and company performance. This questionnaire was initially developed using measures taken from previous studies (Carroll, 1979 & 1991; Sin et al., 2005; Olalekan, 2011). 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 7items totaling 28 items. The measure for company performance in the present paper has 6 items adopted from Sin et al. (2005) and Olalekan (2011). 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).

1.6 Results and Discussion

1.6.1 Convergent Validity and Reliability

The convergent validity of the measure is defined as the degree to which a set of items converge consistently to measure a particular concept. It can be measured through the factor loadings, composite reliability (CR) and average variance extracted (AVE) criteria (Hair et al., 2010). To establish that, we examined the items' factor loadings and cross loadings to identify if there are problems related to some items. The cutoff value of 0.7, as suggested by (Hair et al., 2010), was used to assess the

goodness of items' loadings. As exhibited in Table 1, all the items' loading exceeded the recommended value of 0.7 (Hair et al., 2010). In other words, results in Table 1 shows that all the items highly loaded on their respective factors when compare to their loadings on other factors.

Next, the composite reliability was examined as an important aspect of convergent validity. The composite reliability refers to the extent to which a set of items indicates consistently the latent construct (Hair et al., 2010).

As illustrated in Table 1, the composite reliability ranged from 0.814 to 0.889 which exceeds the recommended value of 0.7 thus indicates an adequate convergent validity (Fornell & Larcker, 1981; Hair et al., 2010). Additionally, the average variance extracted (AVE), which refers to the average variance extracted among a set of items, was examined. In fact, AVE can be used to compare the variance captured by the indicators with the variance assignable to the measurement errors. As suggested by Barclay et al. (1995), values of AVE higher than 0.5 indicate that the set of items has an adequate convergence in measuring the concern construct. Based on the results of Table 2, the values of average variances extracted (AVE) of all the constructs were ranged between 0.645 and 0.801. Thus the measures used have an adequate level of convergent validity.

Table 1. Results of Measurement Model

Model Construct	Measurement items	Loading	Cronbach's Alpha	CR	AVE
Economic	eco3	.778	0.552588	.814	.687
	eco4	.877			
Ethic	eth6	.768	0.642009	.839	.725
	eth7	.927			
Legal	leg3	.892	0.752562	.889	.801
	leg4	.898			
Performance	perfo4	.791			
	perfo5	.852	0.726157	.844	.645
	perfo6	.762			
Philanthropic	phi3	.846	.754	.857	.668
	phi4	.838			
	phi5	.764			

1.6.2 Discriminant Validity

The next step was to examine the discriminant validity of the measures.The discriminant validity of the measures refers to the degree to which items can differentiate among constructs. Meaning that, the items measuring constructs don't overlap.To say the same in different way, a particular construct shares higher variance with its own items than other constructs' items (Compeau et al., 1999).The discriminant validity of the measures was examined by following the method suggested by Fornelland Larcker (1981). In this method, the square root of average variance extracted (AVE) should be higher than the cross correlation among constructs. As illustrated by Table 2, the diagonal elements, which are the square root of the AVE for each construct, is higher than the cross correlation between that construct and other constructs. Thus, these results demonstrated adequate discriminant validity. From the convergent validity and construct validity analysis, the construct validity of the measure can be concluded.

Table 2. Results of the discriminant validity of constructs

	Economic	Ethic	Legal	Performance	Philanthropic
Economic	.687				
Ethic	0.143109	.725			
Legal	0.262647	0.321177	.801		
Performance	0.287352	0.319240	0.215503	.645	
Philanthropic	0.377957	0.319775	0.142629	0.361862	.668

1.7 Testing the Research Model

The results of the study showed that Economic, Ehaic and Philanthropic were found to have a positive significant effect on Company performance with indicators (B = 0.151, t-value=2.896, p< 0.001), (B = 0.199, t-value=3.164, p< 0.01) and (B = 0.230, t-value=3.633, p< 0.001) respectively. These results indicated that H1, H2 and H4 were supported by the results of the study. On the otherhand, Legal was found to be insignificant predictor with Company performance (B = 0.079, t-value=0.1.306, p> 0.05). Thus hypothesis H3 was not statistically supported by the results of this study.

These results, moreover, confirm the importance of these three variables in explaining the variance in Malaysian companies performance. Table 3, Figure 2 and Figure 3; however, summarize the results related to the hypotheses of the study.
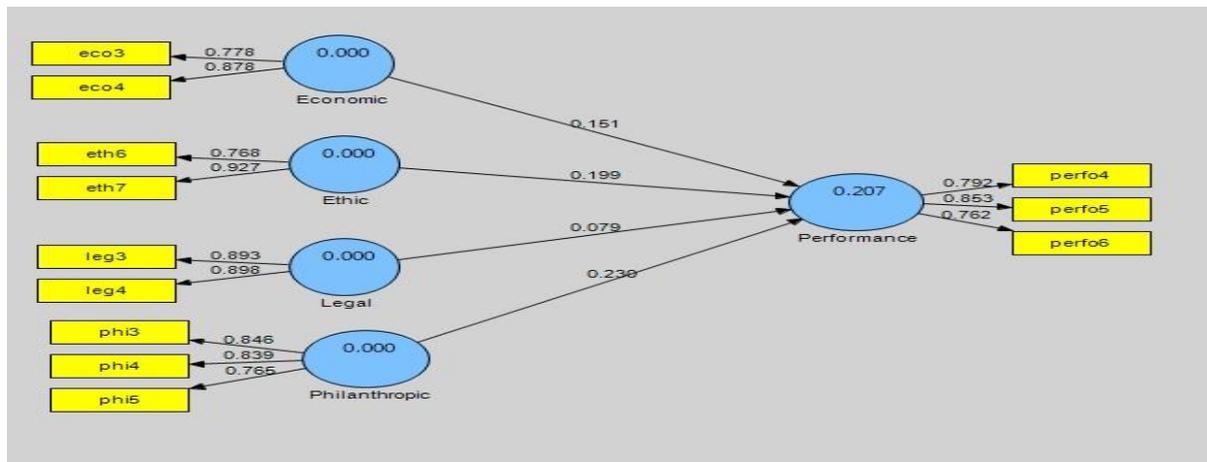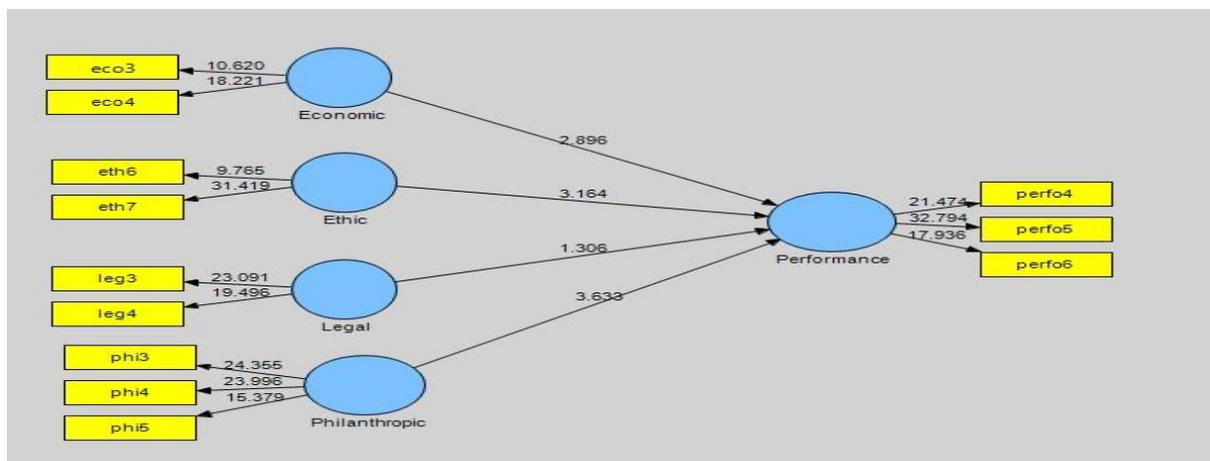

Figure 2: Path analysis results

Figure 3. T-Values for the Path Analysis Results

Table 3. Path coefficients and hypothesis testing

Hypo	From	To	Path Coefficient	T-value	Decision
H1	Economic	Performance	.151	2.896	Supported
H2	Ethic	Performance	.199	3.164	Supported
H3	Legal	Performance	.079	1.306	Not supported
H4	Philanthropic	Performance	.230	3.633	Supported

The result of this study seems to be consistent with that of Dentchev, (2004), who indicated that CSR directly affects company performance. In addition, the result of this study also supported the finding of Classon & Dahlstrom, (2006), who's suggested CSR as one of the strategies that improve company performance. On the other hand, our finding is consistent with that of Margolis & Walsh, (2003), who indicated that CSR has a significant impact on company performance.

Based on the result obtained, the philanthropic responsibility attribute has the most significant impact on company performance, as it has the highest beta value, followed by ethic responsibility, economic responsibility and, finally, legal responsibility. The priority on CSR for the public listed companies in Malaysia was nevertheless different from Carroll's pyramid. Carroll (1979) suggested that for business institutions, economic responsibility is their most basic responsibility, followed by legal responsibility, ethical responsibility and philanthropic responsibility. In addition, our finding is also different from that of Maignan (2001), who found legal concerns to be the most important responsibility of corporations, followed by ethical, philanthropic and economic responsibilities.

Malaysian public listed companies seem to view CSR priority differently from other nations. Philanthropic responsibility was still the basic utmost priority preferred. However, they ranked ethic responsibility as the second most important responsibility compared with economic responsibility as suggested by Carroll, and legal responsibility was ranked last, as opposed to philanthropic responsibility, as in Carroll's pyramid. It is not surprising that Malaysian public listed companies see corporations' philanthropic responsibility as being more important than their legal responsibility.

In Malaysia most of the CSR activities by companies only emphasize on philanthropic responsibility. This can be inferred by observing the recipients of Prime Minister's CSR Awards in Malaysia, awarded to companies focusing on philanthropic activities such as Petronas Berhad for education; INTEL Technology for environment; PETRONAS for culture; and CIMB Group for community and social welfare in 2009. Furthermore, the winner of Prime Minister's CSR Awards for 2010 and 2011 are as follows: IRIS Corporation Berhad for community and social welfare; MAYBANK for culture; and ECM LIBRA financial group for education. Although the Malaysian government is trying to enforce greater legislation governing business organizations, to our respondents, obeying the law is the organizations' responsibility least likely to affect their performance.

1.8 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. Kang, Lee and Huh, (2010) 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.

Furthermore, this study used CSR definition by Carroll this paper has only been conducted to investigate CSR in public listed companies. Therefore, future studies in Malaysia should use Bursa Malaysia CSR definition Environment, Workplace, Community and Marketplace.

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