The Basis for Corporate Social Responsibility in Malaysia

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Abstract
Purpose: The purpose of this paper is to assess the viability of several prominent CSR theories that have been proposed over the years, towards recommending a theory that is most suitable for Malaysian firms to adopt as the basis of their CSR practices and programs.

Design/methodology/approach: This paper critically reviews several key suppositions that form the foundations to several prominent CSR theories, in light of Malaysia’s distinct social and economic factors.

Findings: CSR theories based on values and beliefs, especially from a Western-centric point of view, may not be compatible to Malaysia. Instead, it is recommended that Malaysian firms adopt the ‘shared value’ approach to CSR. As this would allow them to focus on increasing their competitive advantage, whilst contributing positively to the society and the environment at the same time.

Originality/Value: This paper contributes to the CSR literature, particularly with regards to the Malaysian context. It highlights the importance of considering a nation’s social and economic factors in ensuring that firms’ CSR practices and programs are productive and in line with the nation’s needs.

Keywords: Corporate Social Responsibility theories, critical review, Malaysia

Paper Type: Literature Review

Introduction
In attempting to justify Corporate Social Responsibility (CSR), the Chief Executive of the Sime Darby Foundation blithely proclaimed that “it only makes sense”, considering the billions of Ringgits in profits that its benefactor – Sime Darby Berhad – makes annually (Zainal Abidin, 2012: p.71). Yet one could argue to the contrary. That rather, the sensible thing would be to channel the profits in the interests of its investors. Perhaps, towards new strategic investments or by rewarding its investors in the form of dividends. As a typical investor expects utility maximization of his or her investments in the firm (Schmitz & Schrader, 2013). Moreover, an investor who is looking to contribute to the community, could have very well done so directly. And in so doing, forgo the opportunity cost and risk of investing in a business concern.

Why then, should a firm – which in essence is a profit seeking entity – partake in social and environmental causes? In other words, what is the basis for CSR? The answer represents the theoretical underpinnings of CSR. But therein lies the problem, as many theories have been proposed over the years (Taneja, Taneja & Gupta, 2011). And more are expected to follow in time, as theoretical development remains the highest research agenda in the field of CSR (Lindgreen & Swaen, 2010). As such, which theory should Malaysian firms adopt as the basis for their CSR? This paper attempts to provide the answer. It begins with an introduction to the concept and definition of CSR, followed by a review of CSR in Malaysia. Then, the key aspects of Malaysia’s socio-economic landscape are discussed, towards providing the context. Following that, several prominent CSR theories are critically reviewed with a view to assess their applicability in Malaysia. Finally, the authors recommend a more suitable basis for Malaysian firms to adopt for their CSR initiatives.

Corporate Social Responsibility
Concept and Definition
Most scholars point to the publication of Howard Bowen’s book “Social Responsibilities of the Businessman” as the defining moment in the history of CSR (Carroll, 1979). Published over sixty years ago, Bowen exhorted managers to take on social responsibilities, in addition to their profit motivated actions. And with that, the move
to place CSR on the corporate agenda of firms began in earnest. In its early stages however, CSR was not without its detractors. Advocates of the free market system in particular, were concerned that saddling businesses with social responsibilities would rock the foundation of the capitalist/free market economy (Pava & Krausz, 2013). Milton Friedman for one, even argued that CSR is tantamount to a breach of managers’ fiduciary duties (Friedman, 1970). Since then however, there has been a sea change on how the business world views CSR – it has become acceptable. So much so today, firms consider CSR to be indispensable to their corporate agenda (Kiron et al., 2012). There are two interrelated reasons for this. Firstly, CSR is now well received by shareholders (Lee, 2008). And secondly, the basis for incorporating CSR has been rationalized more and more on instrumental grounds, making CSR more business oriented (Bhattacharya & Sen, 2004).

In spite of its proliferation, scholars are unable to agree on one universal theory for CSR. Garriga and Melé (2004) have provided an extensive review of the prominent CSR theories that have been put forth over the years, from different perspectives and fields of research. It is not the intention of the authors here to repeat them. Suffice to say that notwithstanding the abundance of CSR theories, almost all of them can be classified as being either normative or instrumental based (Amaeshi & Adi, 2007). Normative theories, justify CSR on philosophical, moral and ethical grounds. Whereas instrumental theories are based on pragmatic, business-centric reasons. Although there are theories, such as the ‘Stakeholder’ theory, that have been proposed as being either normative or instrumental depending on the perspective of the respective scholars (Donaldson & Preston, 1995).

We now turn our attention to the task of defining CSR. Even way back in the seventies, Votaw was of the opinion that “corporate social responsibility means something, but not always the same thing to everybody” (1972: p.25). Since then not much has changed, as Garriga and Mele (2004) quote Votaw over thirty years later, to emphasise that point. And this extends to business circles as well. For example, the World Business Council for Sustainable Development (WBCSD) acknowledges that there is no universal standard of what CSR is, as its meaning depends upon a range of local factors including culture, religion, and governmental or legal framework conditions (WBCSD, 2014). Following a review of CSR literature in leading academic journals from the years 1970 to 2008, it is reported that “the biggest lacuna of CSR research is the absence of a single, agreed definition of the term CSR among researchers and practitioners even after a lapse of more than four decades since the emergence of the concept of CSR” (Taneja, Taneja & Gupta, 2011: p.357).

The on-going debate about its proper meaning has led Okoye (2009) to conclude that there will continue to be various valid conceptions of CSR and that an agreed universal meaning is not necessary. Instead, what is necessary she opined, is “a common reference point” or “core” for it, which concerns the attempts to address the various issues which arise out of “the dynamic relationship between corporations and society over time” (Okoye, 2009: p.621). Be that as it may, the authors here believe that a working definition of CSR is still required. As it would serve as a touchstone to CSR practitioners and firms, and in so being, help clarify the concept, which remains mired in confusion. For that purpose, this paper adopts the definition proposed by Tsoutsoura, that CSR is “a comprehensive set of policies, practices and programs that are integrated into business operations, supply chains and decision-making processes throughout the company and usually include issues related to business ethics, community investment, environmental concerns, governance, human rights, the marketplace as well as the workplace” (2004: p.3). This definition was chosen for two reasons. Firstly, it embodies the entire range of obligations that firms have to society as conceptualized by Carroll (1979) in his “Three-dimensional Model of CSR”, to wit the economic, legal, ethical and discretionary categories of business. And secondly, it captures the broad spectrum of drivers and dimensions of the concept of CSR, in line with its contextually rich nature (Peloza & Shang, 2011).

**CSR in Malaysia**

There was evidence of CSR in Malaysia, even way back in the 1980s, in terms of awareness and implementation (Teoh & Thong, 1981). However, only in this past decade has CSR truly made headway. Much to credit of the policies and initiatives of the federal government and its agencies (Sharma, 2013). Of these, there are two major milestones in particular. The first is the launch of the “Silver Book” in May 2005 – a set of CSR principles and guidelines for Government-linked companies (GLCs) in Malaysia (Putrajaya Committee on GLC High Performance [PCG], 2005). Its objective is to assist GLCs in incorporating CSR into their business agenda. The other key milestone, was when Bursa Malaysia – the Malaysian Stock Exchange – made it mandatory for all public listed companies (PLCs) in Malaysia to disclose their CSR initiatives in their annual financial reports (Yam, 2012). To further incentivize firms, various CSR awards have been introduced. The most prestigious of which is the Prime Minister’s CSR Award, that was launched in 2007. Notwithstanding these initiatives and incentives, CSR in Malaysia is said to be still at its infancy (Amran et al, 2013). As Malaysian firms are reported to be lagging when compared to international CSR best practice norms. Overall, philanthropy is found to be the
most common form of CSR in Malaysia. A survey by Pratabhan & Abdul Rahim (2005) found that between July, 2003 to December, 2004 alone, Malaysian firms donated over 82 million Ringgits to various charitable organizations. Similarly, Sime Darby Berhad, reports contributions worth millions of Ringgits to various charities every year (Zainal Abidin, 2012). It is also reported that for the most part, Malaysian firms employ CSR as a public-relations gimmick, to garner publicity every now and then (Ahmad & Sulaiman, 2004).

**Malaysia’s Socio-Economic Landscape**

CSR does not operate in vacuum. Indeed, there are various factors that play a role in its implementation and the outcomes that follow. Of these, the social and economic factors of the locale where a firm operates feature prominently. As after all, CSR concerns attempts to address issues which arise out of the relationship between firms and society (Okoye, 2009). Therefore before a firm embarks on its CSR, it must first take into consideration the social and economic conditions in Malaysia. We now proceed to look at both factors within the context CSR, beginning with the social factors in Malaysia.

**Social Factors**

Malaysia is a Muslim-majority nation with a strong Asian heritage. In so being, the values, beliefs, norms and interpretation of meaning of events, of Malaysians will be distinct. What may be desirable or appropriate in Malaysia, may not necessarily be so in Finland for example. Yet, for some time now there have been concerted efforts by developed Western nations, to impose their social values and beliefs unto developing nations such as Malaysia (Banerjee & Lindstead, 2001). Attempts by developing nations in insisting on their differences are usually brushed-off as being regressive or rooted in religious fundamentalism (Donnelly, 1999). Even Malaysian scholars, have strongly argued in favor of the ‘universality’ of Western societal precepts (Manan, 1999).

However, differences in social values and beliefs are not simply excuses for political repression, as was suggested by Manan (1999). Rather they are scientifically proven. Gupta, Hanges and Dorfman (2002) provide a brief overview of various research in over fifty years – all by Western scholars to boot – that invariably point to social differences amongst people from different parts of the world. They further found that societies around the world can be grouped into ten distinct cultural clusters, each with its own unique blend of values and beliefs.

How then does the argument of the ‘universality’ of social values and beliefs stand against these findings? The authors here contend that it does not.

These differences configure into the management style of Malaysians as well. As Malaysian managers are reported to espouse traditional Asian values, with emphasis on loyalty and cohesiveness within their working units (Kennedy, 2002). In addition, the complexities from the social factor are further magnified in Malaysia due to its multi-ethnic composition. As regrettably, in spite of efforts by the Government to forge a truly ‘Malaysian race’, ethnicity remains a critical – and at times, explosive – issue in Malaysian society (Shamsul, 2008). Granted, there may be some similarities. But for the most part, each ethnic group has its peculiar set of values and beliefs. Previously these differences have been contained and kept out of the national discourse. Lately however, precipitated by heightened political awareness and aided by the social media, there has been an increase in the clash of values between the major ethnic groups. Therefore, in adopting a basis for their CSR, Malaysian firms need to be cognizant of two factors in view of Malaysia’s social landscape. The first is that all of the CSR theories that have been proposed over the years emanate from the West. In so being, they may not be congruent to the Malaysia’s social milieu. And secondly – which is closely connected to the first – the fundamentals of normative CSR theories, based on social values, beliefs and morality, may impinge on the sensitivities of the Malaysia’s multi-racial society.

**Economic Factors**

From an economic perspective, Malaysia is a developing nation aspiring to join the ranks of developed nations of the world by the year 2020. This corresponds with the principles of the ‘Vision 2020’ plan launched in 1991, which has since served as the nation’s blueprint for development. Vision 2020 calls for a wholistic form of development in Malaysia, as it encompasses economic as well as social conditions. Among its key objectives is the creation of a prosperous Malaysian society. One that is not only economically robust, but caring and equitable as well (Mohammad, 1991). Towards this end, the business sector has been tagged as the principal driver. In so being, CSR is one avenue by which the business sector can contribute to the raising of quality of life for Malaysians, whilst at the same time adding economic value to itself. This is also reflected in the Silver Book, which has positioned CSR as a means for firms to gain competitive advantage, whilst contributing to social and environmental issues (PCG, 2005).

In addition, Vision 2020 also calls for an export-oriented economy (Mohammad, 1991). This would mean that Malaysian firms have to woo customers abroad – especially those in developed countries in the West, who have
a relatively bigger purchasing power. Naturally in doing so, Malaysian firms would have to compete with multi-national corporations and their established brands. If Malaysian firms were to have a fighting chance of wresting customers away in their favor, their business strategies must reflect the current and growing trends in marketing and customer behavior. One such key trend is CSR. Both scholarly studies and market based surveys, demonstrate that customers in the West have a strong preference for firms with high CSR involvement (Bonini, McKillop & Mendoca, 2007). So much so, many firms in the West have made CSR as a key point of differentiation, in order stand out from their competition (Porter & Kramer, 2011). Moreover, an export-oriented economy would also mean that Malaysian firms cannot rely entirely on domestic investments. Instead, local firms would have to source for funds from the West to help them expand and grow. Yet again, CSR features prominently, as Socially Responsible Investment (SRI) has grown significantly to the point that it is now considered mainstream in investing circles (Sparkes & Cowton, 2004). SRI is closely related to the practice of CSR, as its very basis is in relation to how a firm manages social and environmental aspects of its business, alongside its business operations. It is of no surprise then that the Bursa Malaysia is in the process of launching its ‘Environmental, Social and Governance Index’, looking to attract SRI from all over the world to the tune of US$34 trillion (ABN, 2013). This, would only be possible if Malaysian firms engage in CSR initiatives that are fundamentally sound.

Critical Review of CSR Theories
We now proceed with critical discussion of several recurring normative suppositions and value judgments that are fundamental to some of the more prominent CSR theories. That is not to say that any of these theories are flawed. Certainly, each one has a long and proud history of scholarship and its own merits. Only here, they are assessed from Malaysia’s socio-economic landscape as was discussed earlier.

Mandate
“Political” CSR theories (Davis, 1967; Donaldson & Dunfee, 1994) are predicated on the belief that firms receive a mandate from society to operate. Even “Integrative” CSR theories (Wood, 1991; Carroll, 1991) that base their arguments on ‘social legitimacy’, despite the difference in terminology, indicate the same thing. Both refer to a moral sanction that society confers to a firm, in order for it to operate. Though this may appear noble, in the real world, there are several issues that point to the contrary (Devinney, 2009). The first is the existence of this mandate to begin with. What proof is there that such a mandate exists? Even advocates of ‘society’s mandate’ themselves are not forthcoming on this point. Instead, their arguments point to externalities caused by a firm’s operations, and by extension, a firm’s responsibility over society. In reality, most members of the society are not even aware of a firm’s existence, unless a particular firm is large and has a wide business network. For example, most Malaysians would have at least heard of Petronas Berhad or Sime Darby Berhad – two of the nation’s large conglomerates. But what about the tens of thousands of firms that operate all over Malaysia? Many go on about their business – some for decades prior – with relative anonymity. So, how does the society sanction a firm when its very existence is unknown?

As the saying goes, “the proof is in the pudding”. Perhaps, the existence of this mandate can be proved in reverse. Davis (1973) contends that when a firm fails to live up to society’s expectations, society may at any time amend or revoke its mandate. And that in such a case, the firm will eventually go out of business. In the real world however, that does not appear to be the case at all. Devinney (2009) for example, points to the stock market performance of ‘vice stocks’ such as Altria and Phillip Morris, that have consistently outpaced the market by 5 percent for sixty years on end. It is no different in Malaysia. Case in point – British American Tobacco Malaysia Berhad (BAT), a leading producer and distributor of tobacco based products in Malaysia. Having just celebrated its centenary in 2012, BAT proudly announced a rise of 10.9 percent in profits from the previous year and a slew of other market-related achievements and awards (BAT, 2012). This, in the face of relentless campaigns and initiatives at all levels of society to discourage smoking and consumption of tobacco related products – clearly demonstrating that even a firm bereft of society’s mandate can continue to operate and thrive, for one hundred years on.

Society
Almost all of the normative class of CSR theories refer to the society as if it is homogenous. Donaldson and Dunfee (1994) even went so far as to conclude that a universal set of societal norms and values can be established regardless of where a firm operates. Most of these theorists make such contentions based purely on a Western liberal perspective, assuming that societies across the globe – regardless of their cultural and religious identities – subscribe to the same set of monocultural expectations (Banerjee, 2003). In reality that is not the case. As even societies in developed countries are cosmopolitan and comprise of people with different
worldviews. And this extends beyond social values and beliefs to economic aspirations as well. For example, firms such as Nike, Shell and Levi’s operate in many developing countries. In addition to providing employment to the local communities, these firms have also had to set up basic facilities and amenities, as the respective governments lack the financial resources to do so (Matten, Crane & Chapple, 2003). Yet for example, campaigns have been initiated in the West, to boycott Nike’s products, on the grounds that its operations in Vietnam do not meet Western standards (Pelozza & Papania, 2008). Which society’s aspirations should take precedence in this case? That of the Vietnamese, who gain from employment and benefits that would have otherwise not existed, if it were not for these corporations. Or that of Western society? To whom it makes very little difference – if any – where Nike operates.

**Ethics**

‘Universal rights and values’ and ‘common good’ are CSR theories based on ethical assumptions (Husted & Allen, 2006). Basically, these theories justify CSR on the basis of what is ‘good and bad’. In truth however, the notion of ‘good and bad’, is in itself highly debatable and open to varied interpretation (Okoye, 2009). Yet again, these theories are proposed on the assumption that Western values and perspectives are applicable everywhere else. As was discussed earlier, that is not the case at all. As each society, including the Malaysian society, will necessarily have different conceptions of what constitutes ‘good and bad’. Even scholars in the West have argued that the concept of universal rights and values, is a strictly Western construct and therefore limited in its applicability (Pollis & Schwab, 2006).

**Sustainable Development**

The concept of sustainable development or ‘sustainability’ presents three problems. The first is in its very definition. Sustainable development calls for the preservation of today’s resources to meet the needs of future generations (Brundtland Commission, 1987). Banerjee (2003) questions how or in what manner will future generations – as yet unborn – signal their needs to the present generation, in order for their needs to be preserved. Or conversely, how is the present generation to know, or accurately predict, what is the extent that a particular set of resources could be used at present, before it is considered to be unsustainable?

Human rights is an integral component to sustainable development (Gladwin, Kennelly & Krause, 1995), and that is the second issue. Generally, the Universal Declaration of Human Rights (UDHR) passed by the United Nations in 1948, serves as the standard as to what constitutes human rights (United Nations, 1948). The UNDHR however, assumes a monocultural perspective of the world (Bielefeldt, 1995). And ignores cultural and religious differences of peoples of the world. For example, firms in the West are lauded for CSR initiatives that favor the Lesbian, Gay, Bisexual and Transgender (LBGT) community (Dennin, 2014). But will a similar CSR initiative in Malaysia be welcomed?

The third issue is concerning its application. As in the name of sustainability, developing countries have been refrained from developing their natural resources. For example, over 800,000 people in Malaysia depend on palm oil cultivation for their livelihood (OBG, 2012). Yet, non-governmental organizations (NGOs), such as Greenpeace, have been actively campaigning over the years to force food and beverage corporations such as Nestle, to stop buying and using palm oil. Allegedly, palm oil cultivation destroys the habitat of orangutans (Jenkins, 2010). Though concern for wildlife is valid – and assuming that there is any truth in these allegations – whose wellbeing should take precedence here from a ‘sustainable’ perspective? That of almost a million human beings, or that of primates, very much less in number? And since the orangutan is only found in Borneo and Sumatra, a boycott of palm oil products deprives tens of thousands of people in the industry that are based in Peninsular Malaysia from realising their economic potential, for no apparent reason.

**Stakeholder Theory**

The classic definition of a stakeholder is “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Mitchell, Agle & Wood, 1997: p.854). With such a broad definition, virtually anyone can lay claim to being a stakeholder to a firm. And indeed various groups, especially NGOs, have used the ‘stakeholder’ argument to justify their demands. Even when the actual people aggrieved by the cause the respective NGOs claim to represent, have not authorized them – and in some cases never even heard of them (Devinney, 2009).

This dilemma is compounded considering that each stakeholder group may have different and conflicting views (Aguinis & Glavas, 2012). Granted, heuristics to identify and respond to the right stakeholders, such as the ‘power/legitimacy/urgency’ framework, have been proposed in the past. Even then, it is possible that the claims of those with power but no legitimacy, might override those with legitimacy. The example of “palm oil kills orangutans” campaign initiated by Greenpeace comes to mind again. Assumably, most consumers in the West –
despite never having set foot on Malaysian soil – would take pity on “poor little orangutans” and buy into this campaign. Firms that purchase and use palm oil then, for fear of loss of market share, would be forced to find alternatives. While the palm oil suppliers and their 800,000 dependents – a legitimate stakeholder group – lose out in the process. If anything, the stakeholder approach politicizes a firm and handicaps it from achieving its true potential (Jensen, 2001).

Recommendation
In view of the above, this paper takes the view that CSR theories that fall under the normative class as well as the stakeholder theory, are less suited to the Malaysian socio-economic context. Considering Malaysia is in pursuit of a developed nation status by the year 2020, the continued growth and stability of the economy is imperative. Firms are largely responsible in ensuring that, by creating jobs, wealth and innovation (Porter & Kramer, 2006). As such, Malaysian firms must be allowed to focus on their raison d'être – wealth creation (Friedman, 1970). They must be allowed to operate, unencumbered by contentious normative suppositions and free of demands from external groups, in the guise of stakeholders, to function more effectively. This line of reasoning also finds support in Carroll’s popular conceptualization of the dimensions of CSR (1979). Where, a firm’s economic responsibility was singled out as being the first and foremost dimension to CSR. For that matter, even sustainable development, as conceptualized by the Brundtland Commission (1987), lays emphasis on economic factors, towards creating a sustainable society.

Therefore, the authors recommend that Malaysian firms adopt the ‘Shared Value’ theory as the basis for their CSR. This theory is relatively new as it was first mooted by Porter and Kramer in 2002 (Porter & Kramer, 2002). As a theory, shared value was conceived from the belief that CSR, as it stands, is largely superficial and therefore a drain of a firm’s coffers. In so being, Porter and Kramer believe that it neither helps alleviate the social and environmental problems that it was meant to address nor increase a firm’s wellbeing. Instead, they posit that the competitiveness of a firm and the well-being of the society is intertwined, and mutually reinforcing (Porter & Kramer, 2006). In choosing a social cause therefore, the criterion should ideally be whether it provides the opportunity for shared value between the firm and the society.

‘Shared Value’ is defined as “policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates” (Porter and Kramer 2011: p.6). At the heart of this theory is that value principles must be employed in seeking to achieve economic and social progress. Here ‘value’ is defined as benefits in relation to costs. Shared value, positions CSR as a rich source of competitive advantage for the firm, as it brings a firm’s economic wellbeing to the forefront.

The following are three advantages in adopting shared value as the basis for CSR:

- **Strategic**: the underlying principle is that CSR is an activity that contributes to a firm’s competitive advantage. As in any other form of investment, principles and processes that are applied in strategizing its competitive context must equally apply to CSR. As Porter and Kramer suggest, the essential test that should guide CSR is not whether a cause is worthy but whether it presents an opportunity to create shared value – that is, a meaningful benefit for society that is also valuable to the business (2006).
- **Symbiotic**: rather than solving the tensions between a firm and its surrounding society on a piece-meal basis, shared value takes a “virtuous cycle” approach to CSR. It aims to create a mutual interdependence between a firm and the society, where benefits gained by the society from a firm’s CSR, enrich the firm’s competitive context and vice versa.
- **Seamless**: shared value is configured into a firm’s value chain, encompassing creating, producing, selling, delivering, and supporting its products. This way, CSR is seamlessly integrated into a firm’s operations. All parties involved in a firm’s operations come to benefit.

Conclusion
As catalysts of the nation’s growth and development, it is best that Malaysian firms adopt a more pragmatic and practical basis for their CSR. One that is relatively unencumbered by Western-centric ethics and social values, so as to ensure that their CSR initiatives are compatible to Malaysia’s socio-economic landscape. And in so doing, engage in CSR as a means to increase their competitive advantage while addressing social and environmental causes in the process, towards the overall betterment of the Malaysian society.

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