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Research paper

Benefits and challenges of corporate social responsibility implementations: Evidence from manufacturing sector in Malaysia

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Abstract

Prior studies posited that corporate social responsibility (CSR) by organizations indicates a continuum business commitment to act appropriately. CSR activities carried out would capture the issues, processes and values that companies must tackle to minimize harmful effects stemming from their activities and at the same time the company can create economic, social as well as environmental value for the society. However, not all companies would be motivated to carry out CSR activities. Thus, this study aims to examine the challenges that companies have to face in implementing CSR activities. In addition, the benefits derived from the activities are also discussed. Questionnaires were distributed to manufacturing companies registered with the Federation of Malaysian Manufacturers. The results of this research project suggest that respondent companies appear to apply stakeholder approach in implementation of their CSR activities, where they value their relationship with the stakeholders and are very concerned about the stakeholders' perceptions on their companies. The CSR activities which they implement appear to serve as a bridge to tighten these relationships. On the other hand, the cost and complexity of implementation, and time consumed to implement are among the biggest challenges to the organizations in their implementation of CSR activities.

Keywords: *Corporate Social Responsibility; Challenges; Manufacturing Companies; Malaysia.*

1. Background

Corporate social responsibility (CSR) carried out by organizations involve handling the relationship between their trading operations and the economy plus communities and surrounding environment within which they operate. These activities similarly assist to fulfill employees and shareholders' demand by reporting social-related activities which help companies to achieve better economic impacts (1). In addition, CSR also give good perception and image to public which may result in better public recognition and acceptance, thus avoiding public confrontational and further identification (2).

CSR-related activities had been used to tackle consumers' social anxieties, build a favorable corporate image as well as develop better relationship with consumers plus other stakeholder. It is claimed that bad reputed companies likely to utilize CSR-related activities to attract and increase the confidence of the stakeholders and change their negative image (3). It is claimed that this strategy frequently used by organizations in sensitive industry, such as organizations in manufacturing sector. The manufacturing processes may produce waste and pollute the environment which may affect the community. Sometimes the manufacturing processes produce hazardous chemical which may affect the health and safety of the locals surrounding the factories (4). Thus, this study would focus on manufacturing companies as its sample of study.

This study contributes to the literature relating to corporate social responsibility in manufacturing sector, especially in a developing country where manufacturing sector contributes a large portion to its total income.

This study is written as the following, second section outlines prior research in area of study while the next section describes the research methodology of the study. After that, Section 4 discusses and presenting suggestions from analysis. The study is concluded in the final section.

2. Related Prior Studies

The past three decades has seen corporate social responsibility (CSR) gaining wide attention (5). CSR activities involve going beyond the task of giving financial account to shareholders, extending organizations' accountability. This extension falls under uncalculated view that business organizations have bigger responsibilities rather than making profit for the organizations (6).

2.1. Benefits in CSR implementation

Corporate social responsibility (CSR) involves voluntary act by organizations to interact with their stakeholders (7). This is a way for organizations to discharge their responsibilities to the community and help to solve the economics and social problems. Meanwhile another earlier study give a different perspective on CSR which is a mechanism that will encompass issues, processes and values that companies must tackle so as to minimize harmful effects of their activities. Sometimes companies struggle to balance the profit and benefit they will earn with the effort to reduce the damage done by their activities (8). Reducing harmful effects of company operations as well as creating social laden value is similar to promoting human right such as respecting human rights

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which will prevent companies from causing harm to the communities in which it operates (8).
Hill, Stephens (9) posits that CSR is the attitudes and beliefs that are intertwined with the nature of relationship that form between society and businesses. It is claimed that companies will get benefit by engaging in CSR because the activities can better enhance financial performance, improve the image of the organizations and enable to attract as well as retain best workplace, which would lead to increase the value of the companies in the market.

2.2 Challenges in CSR implementation

Findings from previous studies indicate that actions of suppliers, manufacturers and traders especially in manufacturing sector has the possibility of producing detrimental features on ecology and societal systems (10). Businesses need to maintain and create corporate social advocacies throughout the supply chain length (11). This covers a totality of activities from raw materials acquisition, production and delivery of products to customers.
High cost involved in conducting CSR activities is claimed to be the main challenge to organizations (12). As a consequence, organizations tend to pay more attention to short term programs rather than those programs which would have long term advantages and would be able to provide profits in the long run (13). Organizations tend to be more concerned and focus on the cost involved and competitive advantage that they would gain rather than health, security and ecology development of the society (11). This notion is also supported by Fai Yuen and Ming Lim (14) which found that organizations' lack of strategic vision and unwillingness to spend on CSR activities are among the significant barriers in CSR implementation.
Another barrier for the industry to implement CSR is cultural diversity. This factor has affected the success of CSR operation and there is a need for a change in organizational culture to also include their concern about ecology and society in their business plans and practices (11). The barrier rise when people with different beliefs and values in different culture have to work together in an organization. Their different way of thinking and style of communication may cause misunderstanding in the implementation processes. This barrier can affect the productivity as well as the effectiveness of the team to work together (11).
It is also claimed that the absence of upper echelon's commitment is one of the challenges in implementing CSR (11). This notion is supported by Swierczek and Onishi (13) who found that this factor may hinder and delay the CSR implementation processes of organizations. In addition, another study also posited that the goal to implement and improve the corporate environmental activities may also be delayed or difficult to achieve if the top management is not committed (11).

3. Research Methodology

Primary data was used in this research. Questionnaires were distributed to top management of manufacturing companies registered with Federation of Malaysian Manufacturers (FMM). The top management was selected because they have the power to make decisions relating to CSR activities of the organizations. The questionnaire used in this study was adapted from previous studies (15-17).
The questionnaire consists of three sections. Section A dealt to gain information about the CSR implementation in the organizations. Section B tried to seek information pertaining to benefits and challenges A Likert scale from 1 (strongly disagree) to 5 (strongly agree) utilized to gather the data.
The questionnaires were randomly distributed to 150 manufacturing companies registered with Federation of Malaysian Manufacturers. The questionnaires were sent through post and email to the respondents. The researchers explained the purpose of study to the respondents. Follow-up and friendly reminders were made after two weeks to ensure that the respondents receive the questionnaire and would answer them.

4. Results and Discussions

4.1. Descriptive Statistics

Out of 150 questionnaires, only 65 questionnaires were returned. However, 11 questionnaires were incomplete and have to be discarded. Thus, only 54 questionnaires were usable.
Respondent companies are companies registered with FMM. All the companies have been in operation for more than one year. Out of 54 companies, about 70% have been in business for more than 10 years. About 16% have been in operation between 6 to 10 years and the balance has been in business between 1 to 6 years. The average total sales and assets for the past three years of the companies are RM 106,383,604 and RM 1,621,550,217 respectively.
The questionnaires were sent to top management of the manufacturing companies. About 67% of them are owners and directors of the companies, the balance are managers and assistant managers. About 54% are male and 46% are female.

4.2. Benefits of implementing CSR

Prior studies claim that CSR activities benefit the organizations in multiple ways (7-9). Among others, it is claimed that when manufacturing companies implement CSR activities, there are several benefits that they earned and provide value added to them. Table 1 presents the benefits of implementing CSR by the respondent companies. These benefits are ranked based on their mean values.
The result indicates that the companies are motivated to implement CSR activities because they believed that the activities can improve their reputation. The average score of 3.91 for this factor is the highest compared to other factors. This finding is supported by previous studies which claim that the activities provide visible signals to the shareholders and infer positive characteristics of the companies, thus create an avenue to increase overall reputation of companies (18, 19).
CSR activities are also considered as catalyst for responsible consumption by these companies. This factor ranked second and its mean score is 3.89. It is believed that CSR activities is one of the ways the companies can demonstrate their responsibility towards the community and reflect the human side of the companies and their commitment to contribute to the community (20).
The study results also indicate that CSR activities help to improve innovation, competitiveness and market positioning of the companies. It is believed that CSR activities assist in developing consistent long term goals and improve the understanding of complex and competitive environment especially for strategic management processes (21). Vilanova, Lozano (21) further claim that CSR processes develop innovativeness in businesses which lead them to be creative and competitive in their business dealings. This factor is ranked third and scored a mean of 3.87.
In addition, respondent companies also believed that by implementing CSR activities they can improve their ties with the regulators and communities in which they operate. Good relationship with the regulators would help to facilitate their dealings with government department officers and if the activities manage to win the hearts of the communities, this would lead to better public acceptance and less confrontation, which would lead to smoothness of their business operations (2). These two factors are ranked forth (with an average score of 3.85) and fifth (3.80 as the average score) by the respondent companies in this study respectively.
The respondent companies appear to apply stakeholder approach which takes into considerations the perception of their stakeholders. These results are similar to an earlier study by Arevalo and Aravind (15) using Indian data. They believed that CSR implementation would improve their relationship with their stakeholders such as those with their current and potential investors, employees and suppliers. Their concerned about these relationships are re-

flected in their ranking. The respondent companies believe that CSR activities can help to attract the shareholders and ranked this factor sixth, with a mean score of 3.79. This result is in congruent with prior research which claims that CSR activities would attract and increase the confidence of the shareholders about the company (3). In addition, the results also indicate that these activities can help them to build their relationship with their employees, which may attract them to be loyal to the company as claimed by Santos (22). In addition, Galbreath (19) claimed that CSR activities portray that companies exhibit fairness, socially responsible and able to reduce employee turnover. This factor is ranked seventh, with a mean score of 3.78. Another important stakeholder who may also be attracted by the CSR implementation of the companies is their suppliers. This factor is ranked eighth, with a mean score of 3.74. It is claimed that companies which consider CSR as important would also encourage their suppliers and customers to be involved in such activities (23).

Table 1: Benefits of Implementing CSR activities

	N	Min	Max	Mean	Std. Deviation	Rank
Improve reputation of the company	54	2	5	3.91	.784	1
A catalyst for responsible consumption.	54	2	5	3.89	.691	2
Improve innovation, competitiveness and market positioning.	54	3	5	3.87	.664	3
Improve relations with regulators.	54	2	5	3.85	.711	4
Improve relation with the community.	54	2	5	3.80	.683	5
Improve shareholders' investment.	54	2	5	3.79	.810	6
Improve ability to recruit, develop and retain staff.	54	2	5	3.78	.691	7
Improve ability to build effective and efficient supply chain relationships.	54	2	5	3.74	.782	8

4.3. Challenges in implementing CSR

Prior studies also reported that the companies face a lot of challenges in conducting their CSR activities (15, 22, 24). Table 2 presents the research findings. The results show that the cost of implementing CSR activities can be highly costly and is the biggest challenge for the respondent companies in this study. Its mean is 3.56 and ranked first among the factors. This may be due to the fact that CSR activities would normally represent a fixed cost, which would demands a necessary funding (24). Earlier studies also uphold this notion by justifying the lack of financial resources limit companies from developing social responsibility practices (15, 22).

Table 2: Challenges in implementing CSR activities

	N	Min	Max	Mean	Std. Deviation	Rank
CSR implementation is too expensive.	54	2	5	3.56	.945	1
CSR implementation is too complex.	54	2	5	3.46	.840	2
CSR implementation is too time-consuming.	54	2	5	3.36	1.012	3
CSR implementation does not provide significant benefit to our organization.	54	2	5	3.35	.935	4
Do not have enough knowledge about CSR implementation.	54	2	5	3.34	.955	5
Difficult to obtain information about CSR implementation.	54	1	5	3.33	1.028	6
Lack of training opportunities or seminars to learn about CSR.	54	1	5	3.32	1.009	7
Top management does not support CSR implementation.	54	1	5	3.30	1.025	8

The respondent companies also indicate that the CSR activities can be too complex (rank second, with a mean score of 3.46) and too time consuming (rank third with a mean score of 3.36) which pose a great challenge for them. These findings are supported by a prior study which found that complexity of the processes significantly hinder their implementation (15).

Some respondent companies also believe that there is no significant benefit of CSR implementation to their organizations and this factor is ranked forth, with its mean score of 3.35. When the companies do not perceive the activities as important and contribute significantly to the wealth of the company, the implementation of those activities may be delayed or may not be carried out at all, priorities will be given to those that considered or perceived as more important and contribute to the value of the company. This notion was supported by Friedman (25) who posits that the costs involved may be perceived by firms as a forgone cost which could be used for other investments / purposes to increase the wealth of the organizations.

Prior studies also reported that companies face difficulties in acquiring the necessary knowledge to implement an effective CSR policy (15, 22, 24). This lack of knowledge is ranked fifth (average value of 3.33) and having difficulty to obtain information about CSR practices is ranked sixth (average value of 3.32) by the respondent companies in this study. Laudal (24) reported that smaller companies often have insufficient knowledge to exploit advantages regarding implementing social responsibility activities.

In addition, it is reported that companies also encounter human resource incompetency barrier when engaging in CSR activities (21). Staffs do not have proper training to learn about conducting CSR activities. As a consequence, this problem may lead to difficulties in aligning current business operations with CSR activities carried out by the organizations. This factor was ranked seventh by the respondent companies with mean value of 3.31.

Another important challenge face by the respondent companies is lack of management support by top or middle levels. This factor is ranked eighth by the respondent companies with a mean value of 3.30. This result supports findings from earlier studies which claim that it is difficult to carry out good CSR activities when there is an absence of top management commitment and support as claimed by Setthasakko (11) and Swierczek and Onishi (13).

5. Conclusion

This study provides insight about the benefits and challenges that Malaysian manufacturing companies face in executing their CSR activities. The results indicate that CSR activities infer positive characteristics of the companies which create their good image and reputation. Generally the results appear to suggest that Malaysian manufacturing companies apply stakeholder approach where they are very concerned about the perception of their stakeholders. They believe that CSR implementation would help to improve the perceptions of the regulators, community, investors, employees and suppliers on their companies. On the other hand, the high cost involved is the greatest challenge for the companies in their implementation of these activities.

However, there are some limitations to this study. First, the applicability of the results may be limited to the context of Malaysia only. In addition, the size of the sample was small and only sufficient for analysis of aggregated data, but inadequate for detailed subgroup analysis. As a result, differences in the responses from various manufacturing sectors were not analyzed. Lastly, this paper does not provide the solutions to overcome the challenges identified in the study. Hence, future research can focus on proposing solutions to overcome the challenges to CSR implementation.

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