

CORPORATE SOCIAL RESPONSIBILITY AND FIRM PERFORMANCE OF LOCAL AND MULTINATIONAL FIRMS IN PENANG MALAYSIA

By

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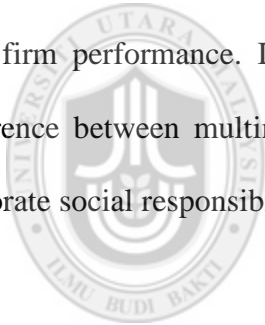
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ABSTRACT

This study examined the relationship between corporate social responsibility (CSR) and firm performance between the multinational and local companies in Penang, Malaysia. Corporate social responsibility (CSR) in this study is dimensionalised into the community development CSR, human resources CSR and environmental contribution CSR. The study used a convenience sampling technique to collect primary data from 113 multinational and local companies in Penang, through a self-administered survey questionnaire and which was analysed with statistical package for social sciences (SPSS) version 20 software. The findings show that community development CSR, human resources CSR and environmental contribution CSR have positive relationship with firm performance. In addition, the findings revealed that there is a significant difference between multinational companies and local companies in their practice of corporate social responsibility.



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LIST OF ABBREVIATIONS

NFP	Non-financial Performance
ACCA	Association of Chartered Certified Accountant
NAA	National Association of Accountant
CEO	Chief Executive Officer
SPSS	Statistical Package for Social Sciences
FDI	Foreign Direct Investment



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CHAPTER ONE

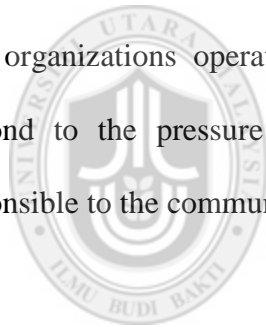
INTRODUCTION

1.1 Background of the Study

The goal of every corporate organization is the provision value and incentives to their stakeholders. Hence, profit-oriented organizations are not charitable organizations that do not seek financial profit, although their interests are sometimes directed towards supporting charitable activities. Sometimes, it is beneficial for corporate organization to embark on charitable activities that should be undertaken by government, though they are not government agencies. These charitable activities are regarded as corporate social responsibilities (Mudzamir & Norfaiezah, 2003).

Corporate social responsibility is an aspect of the economic, legal and ethical activities of a business entity directed towards adding value to the business, societal expectations (Joyner, Payne & Raiborn, 2002; Mudzamir & Nurfaeizah, 2003). Richardson et al., (1999) regarded corporate social responsibility as a ongoing emphasis and obligation of corporate organization to the ethical elements of their management and organizational structure. Corporate social responsibility portrays the interest of the firm by showing the previous activities of the corporation in fulfilling the corporate objectives to ensure that the corporations provide not only goods and services, but also play a major role in contributing to community development (Tilt, 1994).

The notion of corporate social responsibility is no more a new concept (Spence, 2011). Many corporations have always given money to charitable organizations. For over two decades, high regulations have explored different ways in which corporate organizations can go beyond regulatory compliance, especially in respect with environmental impact as a result of their operational activities, much of which are represented under the banner of sustainability which means corporate social responsibility. However, as social responsibility concept goes beyond only environmental issues but to the non-environmental issues, the social impacts of operations of many corporate organizations have risen to become issues of importance. Hence, the response of the NGOs is required, by paying more attention to the human rights of the community within which they organizations operate. As such, many companies both local and multinational respond to the pressure from social, political and legislation by becoming more responsible to the community within which they operate (Prakash, 2012).



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With businesses focusing on generating profits, multinational firms have realized that being a good citizen globally is not enough, but also a good citizen to the local environment by attending to the local problems and issues within the local community of their operations (Husted, 2006; Prakash, 2012). In the present era of globalization, multinational corporations and local business corporation are unable to conduct destructive and unethical practices anymore without the attraction of negative reaction from the entire public. In the presence of increased media, pressure from the non-governmental organizations and the fast rate of information sharing with the global world, the civil society has increasingly been in demand of a sustainable business

practices from corporate organizations. Thus, the importance of ethical business conduct is now realized by business organizations while running their daily operations to enhance better firm performance.

1.1.1 History of Corporate Social Responsibility in Malaysia

In Malaysia, corporate social responsibility activities draw its attention from the Wawasan 2020 (vision 2020), an ambitious development plan set up in 1991 to establish a united nation with a strong moral and ethical values (Sharma, 2013). Following the Asian financial crisis in 1998, Malaysian government established a finance committee on corporate governance introduced to establish the principles of best practice of good governance. In addition, the ministry of energy, green technology and water was established in 2004 to oversee the pro-active role of corporate social responsibility in the country.

In 2006, a silver book was launched by the Malaysian government as a set of principles guiding the implementation of government linked companies so that they can proactively contribute to the society and still create value to their shareholders (Sharma, 2013). In addition, the importance of corporate social responsibility was emphasized in the budget speech 2007 by the Prime Minister, Datuk Seri Najib Tun Razak in September 2006. He stated that the corporate social responsibility activities of all the public listed companies in Malaysia must be reported in their annual reports (Abdullah, 2006).

In 2010, sustainability program was launched by Bursa Malaysia to encourage public listed companies in Malaysia to integrate elements of sustainability in their business operations (Bursa Malaysia, 2011). Furthermore, Bursa Malaysia launched environmental, social and Government (ESG) index in 2012 to enhance more socially responsible investment funds into Malaysia. According to the association of chartered certified accountant (ACCA) in Malaysia, 43% of the companies in Malaysia reported about their contribution to a certain extent (ACCA, 2003). According to Mallenbaker.net (2006), more corporate social responsibility commitment of many organizations was expressed in terms of charity. This indicated the increase in the awareness of corporate social responsibility activities among Malaysian companies. Corporations in Malaysia are expected to make a beneficial contribution to the community by alleviating poverty, reduce and conserve energy, combating deforestation (Mohamed, 2004). Therefore, the Malaysian government has put minimum standards in place to administer corporate social responsibility practices among the corporations (both local and the multinational).

1.1.2 History of Corporate social responsibility in Penang, Malaysia

The involvement of American and local Malaysia companies has been noticed in Penang, Malaysia (Cheng & Ahmad, 2010). Over 56% of foreign investors in transport manufacturing choose Penang as a base for their manufacturing activities. Penang, Malaysia remained the most popular location for investors for their manufacturing activities such as export-oriented industry of scientific and measuring equipment (Cheng & Ahmad, 201; SERI, 2008). Since industrial activities began in Malaysia in the 1970s, disposal of toxic waste from the industry is most pronounced problems faced in

Malaysia, including Penang (National Institute for Security and Sustainable Development, 2002). Following the call of the Malaysian Government that all organizations, including the MNCs should take account of the economic, social and the environmental impacts of their activities, corporate social responsibility has been an issue of emphasis among the companies operating in Penang, Malaysia.

1.2 Problem Statement

Much interest has been attracted to the relationship between corporate social responsibilities and the performance of firms among researchers as different results were revealed from the findings of past studies. While some studies revealed a positive relationship between the two constructs (Margolis & Walsh 2003; Orlitzky et al., 2003), some found that the relationship is negative (Wright & Ferris, 1997) while some assert that the two constructs are not related (Aupperle et al., 1985; Teoh et al., 1999). Thus, the relationship between corporate social responsibility and firm practices remains inconclusive (Mishra & Suar, 2010). As such, a ground is created for further investigation as a result of the findings of the previous researches.

In Asia, corporate social responsibility is mainly regarded as an idea of the western world due to their strong standard and application system which are feeble in Asian countries (Chapple & Moon, 2005; Mishra & Suar, 2010). The weak standards in the developing countries of Asia pose a considerable challenge on firms to practice corporate social responsibility. Although, several researches have been extensively conducted in developed countries on the influence of corporate social responsibility for

firm performance, however, only few of such studies are conducted in the developing countries of Asia (Mishra & Suar, 2010) including Malaysia. Many of those previously studies conducted in Malaysia only investigated the characteristics and the extent of corporate social responsibility without linking it to firm performance (Hamid Atan, 2005; Siwar & Harizan, 2012). However, the few that linked it to firm performance did mainly concentrated on the telecommunication industry (Mudzamir & Norfaiezah 2003). Therefore, this study intends to fill the gap by investigating the relationship between corporate social responsibility and firm performance. By so doing, it aims to compare the extent of corporate social responsibility practices between multinational and local firms in Malaysia. The following section presents the objectives of this study.

1.3 Research Objectives

The following objectives are outlined to be achieved by the successful completion of this study, these are:

- i. To examine the relationship between community development and performance of Malaysian firms.
- ii. To examine the relationship between human resources and performance of Malaysian firms.
- iii. To examine the relationship between environmental contributions and performance of Malaysian firms.

1.4 Research Questions

The following research questions are to be answered in order to achieve the stated objectives of the research:

- i. What is the relationship between community development and performance of Malaysian firms?
- ii. What is the relationship between human resources and performance of Malaysian firms?
- iii. What is the relationship between environmental contribution and performance of Malaysian firms?

1.5 Significance of Study

The successful completion of this study will be significant to the body of knowledge in two folds: theoretically and practically.

Theoretically, the findings of this study will increase the literature on corporate social responsibility in developing countries. Hamid, Fadzil and Ismail (2007); Jammali and Mirshak (2007) stated that literatures on corporate social responsibility in developing countries is limited in number. Also, this study will contribute to the study on corporate social responsibility within a specific industry due to the nature of ownership of the industry as issues on corporate social responsibility were examined across industries with few studies examining the differences between specific industry nature (Gray, Javad, Power & Sinclair, 2001).

Practically, this research will enhance the detection of some certain forms of social performance relating to a particular industrial nature (Hamid, 2004). Hence, detail and precise descriptions and distinctions of corporate social responsibility activities relating to multinational corporations and local business firms in Malaysia will be provided by this study.

1.6 Scope of the Study

This study will be conducted among the firms in Penang, Malaysia. This is because Penang is rated among the top foreign direct investment (FDI) states in Malaysia. It is the leader of growth centre in Malaysia after Klang Valley with more than 200 multinational companies operating at large scale. Penang has been proficient in the last 25 years due to its dynamism in the manufacturing of electrical and electronics (E&E) goods which keep its GDP growth above the national average (OECD, 2011).

1.7 Organization of the Chapters

This study is divided into different sections represented by chapters. Chapter one presents the background, problem statements, objectives, significance and the scope of the study. The review of previous literatures including the underpinning theory, research framework and the hypothesized relationship of the study is presented in the chapter two. Chapter three presents the methodological approach of the study, this includes the research design, population and sampling techniques, method of data collection technique. The statistical analysis method and the findings of the collected data is

presented in chapter four while chapter five presents the discussion of the findings, conclusion, research implication and the conclusion of the study.

1.8 Summary

Business organizations have realized the importance of being ethical while running their daily operations. As such, much interest has been attracted to the relationship between corporate social responsibilities and the performance of firms among researchers as different results were revealed from the findings of past studies. While some studies revealed a positive relationship between the two constructs, some found that the relationship is negative while some assert that the two constructs are not related. Thus, the relationship between corporate social responsibility and firm practices remains inconclusive. By so doing, this study aims at investigate the relationship between corporate social responsibility and firm performance among Malaysian firms. The problem statement, research objectives, questions, significance and scope of the study is presented in this chapter. The review of the previous literatures is considered in the following section of this study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter of the study presents the relevant literatures on corporate social responsibility practices in Malaysia and other neighbouring countries. Also, the underpinning theory and the hypothesized relationships, including the research framework of this study is presented in this chapter. The next section presents the concept of corporate social responsibility.

2.1 Corporate Social Responsibility

While the role of business, society keeps changing over time, there has been no agreement on what corporate social responsibility stands among the observers or to what extent is the boundary of corporate social responsibility as it is interpreted differently by different observers (Frynas, 2009). What corporate social responsibility indicates, among practitioners that implements it within their companies differs from what it means to researchers seeking to establish it as a discipline (Frynas, 2009).

Company's responsibilities in developing countries are defined differently based on the social (especially national context) (Frynas, 2006). As an example, corporate social responsibility among companies in Malaysia is partly motivated by religious belief (Fryns, 2006), in Argentina, it is partly influenced by the economic crisis in 2001 (Newell & Muro, 2006), while corporate social responsibility in South Africa focus on the issues of racial inequality due to the unique legacy of apartheid (Fig, 2005).

Malaysian companies usually focus on charitable activities that centers around the Muslim and Chinese religious holidays, while South African countries focus on the empowerment of the black people of the nation. As such, it can be said that corporate social responsibility or social responsibility means different things to different people from different nations (Frynas, 2009).

The European Union founded the concept of corporate social responsibility in order to promote social responsibilities of business on environment. Corporate social responsibility as the firms consideration of, and response to issues beyond the narrow economic, technical and legal requirements of firms (Husted, 2006). Corporate social responsibility is defined as a concept through which social and environmental concerns of companies are integrated into the operations of business based on the interaction of companies with their stakeholders, following the increasing awareness that responsibly behaved firms achieved sustainable business success. The concept of corporate social responsibility is related to change in management at company level in a manner that is socially responsible and which can be viewed in two different dimension (Siwar & Harizan, 2012 ;European Commision, 2001):

- a) **Internal** – socially responsible towards the employees and the development of the human capital such as health and safety training, and management change while environmental responsibilities relates to the natural environmental protection and the conservation of natural resources usage for production.
- b) **External** – the external corporate social responsibility goes beyond the company into the local community within which the company operates. This

involves a range of stakeholders such as the business partners, customers, public authorities and the non-governmental organizations (NGOs) that represent the interest of the local community and the immediate environment.

Despite the fact that no universal definition has been agreed for corporate social responsibility, yet many private organizations refers to corporate social responsibility as a way to integrate the environmental, social and the economic implications of their business activities in the ever growing business world (Sharma, 2013). Thus, it becomes apparent for business organizations to be responsible in order to remain current and engage in-light of the increasingly varied stakeholders.

In the present age of industrial globalization, corporations and business organizations have gone beyond the confinement of their nation-state and this predominance of the multinational corporation beyond the confinement of their nation has resulted in an increase in the demand for more accountability and transparent global business (Sharma, 2013).

Business organizations face pressure to respond to a credible responsibility agenda (Sharma, 2013). Globalization and the competition for limited resources has kept corporate social responsibility in the centre of debate among business community and Government. Many proponents were claimed in the discourse on corporate social responsibility in the western world, where it is claimed that corporate social responsibility is no more of corporate philanthropy, it is rather of strategic philosophy for large, medium and small enterprises (Sharma, 2013).

Many intense debates have arisen upon corporate social responsibility between scholars and practitioners in the last decades (Pearce & DOH, 2005). Most of the directions of the debates tended towards the societal role of business and the nature of firms' social responsibility behaviour. Arguments have also been shifted to the development of theories as well as empirical investigations on the link between corporate social responsibility and the organization's performance (Aguilera et al., 2007). Practically, there was also confusion on how corporate social responsibility could be integrated into the objective and the strategy of companies.

Citing an example of CEO's acknowledgement of considering societal expectations as important for achieving competitive advantage appears to be confusing with how corporate social responsibility is incorporated into organizational strategy (Hirschland, 2005). As a matter of fact, reports revealed that about six out of ten corporations do not have corporate social responsibility strategy while those few that have corporate social responsibility strategies do not possess a clear implementation of the strategy (McKinsey & Company, 2006). Even many corporations appear to be weak when little efforts are made to implement corporate social responsibility to capture the basic purpose of strategy.

2.2 The Shift from Philanthropy to Corporate Responsibility

The practice of philanthropy has been in existence since the business activities started until today. One important reason of companies' existence is to make profit. Prior to 1970, corporate organizations usually share their profit with the society in form of philanthropic activities (Sharma, 2013). Corporate social responsibility in organizations

is an obligation after profit has been made as such companies are not expected to behave responsibly if they are unable to make profit. This situation is worsen if an organization is managed by a short-term thinking manager or during economic depression that leads the societies with no choice than accepting discrimination, child labour, pollution and dangerous working conditions (Siwar & harizan, 2012).

One arising argument on philanthropic spending is that continuous donation of money towards societal initiative is regarded as a waste of shareholders' money and it is unsustainable in the long-run and which may lead to a loss of interest of the shareholder. As a result of this arising issue, organization has shifted from sharing the organization profit with the societies as a soft approach of philanthropy to a hard approach by using philanthropy as a means of making profit through the philanthropic spending. Hence, corporate social responsibility has been used as a public relation tool in maintaining the image of the corporation and the performance of firm. It is also used for reducing the adverse impacts of an organization onto environment and society such as those in the oil and gas industry (Siwar & Harizan, 2012).

While philanthropy contributes nothing to companies' profit making ability, corporate social responsibility on the other side is linked to enabling companies in achieving the triple bottom line (economic, social and environmental performance). Therefore, organizations have been committed to embedding the principle of social responsibility during the period of 1990 to 2001. Hence, corporate social responsibility has increasingly been incorporated into the corporate mission, strategies and the activities of

organizations. corporate social responsibility has also been utilized in form of a strategic corporate responsibility towards a long-term survival of organizations. Strategic corporate social responsibility is used by organization to achieve sustainability and it has become part and parcel of the process in which organizations do business (Siwar & Harizan, 2012).

2.3 Corporate Social Responsibility Practices in Asia

Researches show that the practices of corporate social responsibility in Asia are still lagging behind the western countries (KPMG, 2005). However, the increasing globalization, industrialization, the entry of multinational countries and the development of pressure groups in Asia have increased the customers' expectation thereby making the corporate social responsibility practices stronger in Asia (Mishra & Suar, 2005) including Malaysia. The corporate social responsibility practice of many companies is usually directed towards community development (Partners in Charge, 2004). The history of corporate social responsibility can be traced to the philanthropic orientation of businessmen who provided buildings for schools, funds for the pilgrimage and house of worship for people (Sharma, 2013).

The involvement of companies in corporate social responsibility practices are often discouraged by lack of provable link between corporate social responsibility activities and firm performance (British Council *et al.*, 2002). One of the obstacles facing corporate social responsibility was the unprepared approach of the top management towards implementation, lack of consensus on corporate social responsibility priorities

within firms and poor measurement and evaluation of corporate social responsibility activities (Krishma, 1992). Kumar et al (2001) highlight poor policy, poor monitoring, lack of infrastructure and poor taxation system as one of the factors hindering the growth of corporate social responsibility. However, the feeling of environmental friendly activities started growing among Asian businessmen besides the production of quality products at reasonable prices (Kumar et al., 2001).

In consequent to the feeling of corporate social responsibility activities, Asian companies started to change their outlook towards corporate social responsibility by going beyond the passive philanthropy. Presently, corporate social responsibility activities have been seen in Asia as a subject of consideration towards improving company's brand image, and increasing the ties between the companies and the local community within which they operate (Mishra and Suar, 2010).

2.3.1 Factors Influencing Corporate Social Responsibility in Asia

Literatures on corporate social responsibility are confined to large MNCs despite the significant roles played by corporate social responsibility irrespective of the sectors, size and countries of origin of firms (Hopkins, 2003; Pimpa, 2011). Academic researchers were criticized for following generic media which has published several stories on corporate social responsibility based on their knowledge in large and widely known MNCs (Blomback & Wigren, 2009). Thus, it is argued that corporate social responsibility practices would be more advanced if various types of MNCs are fully participative in the CSR practices of their host countries (Pimpa, 2011).

Corporate social responsibility in MNCs are driven by numerous drivers (Ferrel, 2001). Pimpa (2011) and Ite (2004) identified public pressure from both the host and the home country. Corporate social responsibility activities that are related to health, education and pollution have been reactive in the developing countries of Asia, African and South America as a result of public pressure (Ite, 2004). In addition, Cruz and Pedrozo (2009) asserted that corporate social responsibility activities are in the middle of public pressure debate considering their social, environmental impact on their countries.

Another prominent factor motivating corporate social responsibility practices among is the commitment of the organizations with the stakeholders (Pimpa, 2011). According to Fryans (2005), factors such as competitive achievement, stable working environment and managing the external perception of the employees motivate multinational companies in Africa (Nigeria) to engage in corporate social responsibility. According to Young and Rivers (2009), pressures from the stakeholders in the home and host countries influence the orientation of the multinational companies.

2.3.2 CSR and Community Development

Community development is the initiative undertaken by a community partnering with external organizations or corporations towards empowering and making provision for the required needs of the community in getting their needs from the environment. The concentrations of the skills are centred around using local resources and building political power through creation of social groups striving to achieve a common agenda. There must be an understanding between the community developers and each individual

in the community on how to effectively utilize individual in the society to develop the community (Ismail, 2009).

The main approach towards developing a community is a specialized form of addressing, coordinating and building the social infrastructure at a location. Though, this approach only function proper in a situation where all the members of the community possesses a common sense of solidarity (Community Glossary, 2009). According to the United nation (1971), an organized individual approach towards alleviating the community problems with minimum assistance from the external organizations. Community development is a community work which centers around active involvement of people in the developmental activities of the community with external organizations' involvement (Ismail, 2009). Based on the above explanation of what community development entails, it is undeniable that the implications of CSR on community development are many (Perin, 2009).

The following are the roles of CSR on community development: (1) sharing the negative consequence on the community due to industrialization, (2) create a closer relationship between the community and the companies, (3) help in discovering talent within the communities and (4) help in protecting the communities from environmental consequences (Ismail, 2009).

2.3.3 CSR and Human Resources

As human resources is important as the key factor of business process delivery, it is also positioned to enhance the ethics of CSR (Strandberg, 2009). The role of human resources management is significant in corporate social responsibility by making CSR

become “the way we do things around here”. Human resources is a vital partnet that ensures that the saying of the organization is publicly in-line with the way people and the community are treated by the corporate organization (Strandberg, 2009). HR is in the desirable position of providing the appropriate tools and framework that can be employed by the executive team and CEO in incorporating CSR ethic and culture into the strategic framework and the organizational brand name. Thus, it is the only function that influences across the entire enterprise for the entire ‘lifecycle’ of the employees working in the organization. Hence, if handled correctly, its influence is considerable and it is so important for successful CSR delivery (Strandberg, 2009).

2.3.4 CSR and Environmental Contribution

The financial and the non-performance of a corporation is increased by a favourable environmental consideration of corporate social responsibility (Alvarez et al., 2001). Products, processes and management systems that are environmentally friendly enhances cost savings in firms (Mishra & Suar, 2010). Firms enjoy reduced costs arising from wastages of raw materials, environmental crises, and inefficient production processes when they invest in environmental management systems (Allen, 1992). Adoption of superior environmental standards significantly increases firms’ market value by preparing firms to handle stricter regulation in the future and positioning the firm ahead of the competitors (Barret, 1992; Mishra, 2010).

2.5 Firm Performance

Researchers in previous studies have used different types of measurement in evaluating the corporate social responsibility – performance relationship (Griffin & Mahon, 1997; Mishra & Suar, 2010). Usually, firm performance was measured by previous studies using financial measurement. However, this is appropriate in asset-heavy manufacturing firms (Mishra & Suar, 2010). Financial performance only captures historical performance that arises from tangible assets (Ong, 2003). However, financial performance measure fail in recording the non-tangible assets of firms such as customer satisfaction, investment in research and development and employee satisfaction which are the indicators that are significant to the competitive advantages of firms. As such, the measures of the long term success factors of firms are measures using the non-financial performance (NFP) indicators (Kaplan & Norton, 2001).

Many previous researches often conducted on the relationship between corporate social responsibility and firm performance and usually represent the whole performance of firms with only the financial indicators (Tsousora, 2004) . Return on Assets in particular is usually used as a good representation of financial performance (Berman *et al.*, 1999). Unlike the other measure of financial performance such as return on sale which is affected by the differential degree of leverage in firms (Mishra & Suar, 2010).

The non-financial performance of firms provides the indirect indicators of performance. Financial performance measure usually complements the non-financial measures in firms. The returns on the investments of firms on intangible assets are immediately

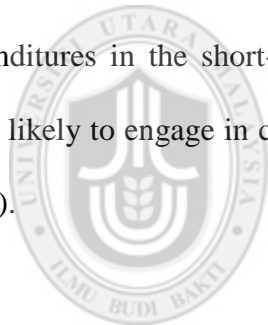
expressed instead of being capitalized in the traditional accounting system (Mishra & Suar, 2010). The profits of firms is usually depressed in the current year of accounting by such treatment of intangible assets as the benefits of such investments on intangible assets accrued over a long period of time. The non-financial performance provides a measure of indirect indicators of performance because of its focus on the consequence of performance rather than the cause of performance in firms. As such, the measure of NFP is considered as lead indicators. The measure of financial performance and the non-financial performance as expected to complement each other. Hence, the holistically measurement of firm performance is done through both the financial and the non-financial measure of performance (Ittner & Lacker, 1998).

2.6 Previous studies on the relationship between Corporate Social Responsibility and firm Performance

The relationship between firm's social responsibility and its performances is inconclusive (Mishra & Suar, 2010). Though, positive relationship is sometimes identified between the two concepts (Margolis & Walsh, 2003), other researchers found that the relationship is negative (Wright & Ferris, 1997) while Wright & Ferris (1997) found no association between the performance of firms and its social responsibility. One useful orientation of corporate social responsibility proclaims that social goal should be in-line with the business goal of any corporation while corporate social responsibility acts as a strategic tool used to maintain a balance of the economic success of firms. This is supported by the management theorist who proclaims that the performance of firms is

improved if the social responsibilities of the firms are improved towards their community stakeholders (Waddock and Graves, 1997).

A great deal of interest has been attracted by the linkage between firm's social responsibility and its performance in the recent years (Yin, 2012). Lin *et al.*, (2009) investigated a case of long term R&D in Taiwan and found that the positive influence of corporate social responsibility on short-term financial performance of firm is not significant while there is a significant positive effect of corporate social responsibility on the long-term firm performance of corporation. However, it was asserted by other researchers that firm resources are decreased by corporate social responsibility expenditures in the short-term run but companies with strong financial resources are more likely to engage in corporate social responsibility activities (Scholtens, 2008; Yin, 2012).



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The period of 1970 marked a remarkable period of corporate social responsibility development (Gray, 2000). The first report of corporate social responsibility was categorized under four general heading by the US National Association of Accountant (NAA). The headings are: community development, human resources, environmental contribution and product and services contribution (Keller, 1974). Since that time, several studies have been conducted to report the disclosure of social responsibility. Belkaoui (1984) reviewed the dimensions of corporate social responsibility and proposed economic growth and efficiency, education, training and employment opportunities civil right and equal opportunity among people, urban development and

renewal, pollution abatement, conservation and recreation, culture and the arts, medical care and government.

Different from that, five items were proposed as a standard for corporate social responsibility reporting by the United Nation Economic and Social Council (1977). These items are categorized into human resource, production, programme on investment, structure of organization e and measurement of environmental (Park & Adnan, 1994). However, human resources was found by many studies as the most reported theme by the developed nations (Nafez & Kamal, 2000; Gray et al., 2001).

In Malaysia, several empirical investigations have been done regarding the perception of manager on corporate social responsibility. One of the earlier studies was Thong (1985) who found that the CEOs in Malaysia were concerned about human resources and product and services contribution. Another earlier study on corporate social responsibility disclosure is Kin (1990) who found product service contribution, environmental contribution and community involvement as the disclosed theme in Malaysia. In addition, Malaysian institute of Certified Public Accountant (1998) also conducted on corporate social responsibility among the public listed Malaysian companies and found that the social responsibility disclosure level is low among corporate organizations. It was also found that the three dimensions of corporate social responsibility in Malaysia are: community involvement, environmental contribution and human resources. They also affirmed that human resources dimension is the lowest on the rank. In respect to the aforementioned discussion, this study presents community

development, human resources and environmental contribution as the dimension of corporate social responsibility used in this study.

The next section in this study presents the legitimacy theory as the theoretical perspectives used in the development of the research framework.

2.7 The Legitimacy Theory

The focus of this study in explaining the link between corporate social responsibility (corporate social responsibility) and firm performance is based on legitimacy theory. According to Haniffin & Cooke (2005), the legitimacy provides an explanation of the pattern of social disclosure in organizations, thus, the practices of corporate social responsibility in this study are based on this theory.

The legitimacy theory explains the legitimate motive behind the implementation of corporate social disclosure in organizations. According to Guthrie & Parker (1989), it is a reason behind corporate management's reaction to the expectation of the community within which they operate. The local community within which company operates expects the company to implement some certain level of acceptable and responsible activities that are beneficial to the dwellers. Legitimacy means that companies would be cautious in the sense that their operational actions and performance are friendly to the community by taking the growth of the community into consideration (Wilmsheurst & Frost 2000). Public concern on the impact of business corporations on the environment can be appeased by corporate social responsibility through the proactive legitimization

strategy in obtaining the capital inflow and to gratify the investors with ethical behaviours (Haniffa & Cooke 2005).

The inconsistencies in the result of many organizations in using corporate social responsibility to achieve better performance is based on different strategies used by the firms to legitimize their behaviors (Newson & Deegan, 2002) and manage the pressure from the society within which they operate (Clarke & Sweet, 1999). The legitimacy theory relies on the dependency of organization on the society that might undergo changes as times goes and the existence of the firms are justified in the society. The explanation provided by Dowling and Pfeffer (1975) on the four strategies that could be employed in legitimating the behaviours of firms was further explained by Cormier and Gordon (2001). The first is to continually educate the community on the intention of the firms to change its legitimate behaviour and its actions. Secondly, the firm has to change the perception of the society towards the firms action without changing the action of the firms itself. Thirdly, the firm has to divert the attention of the society away from the alternative issues relating to their action and the last is to change the expectation of the society from the firm performance (Cormier & Gordon, 2001). The next section presents the existing relationship between the social responsibilities of corporate firms and their performance.

2.8 Theoretical Framework

The theoretical framework represents the logical foundation on which the research project is grounded (Sekaran & Bougie, 2009). It logically described, developed and

elaborates the network of association between the variables of a research. Having examined that there is possibilities of relationship between firms' social responsibility and performance, it becomes appropriate to specify the path of the relationships among the variables of this study.

The legitimate theory explained the link between firm's social responsibility and its performance by highlighting the legitimate motive of implementation of CSR. According to Guthrie & Parker (1989), it is a reason behind corporate management's reaction to the expectation of the community within which they operate. The local community within which company operates expects the company to implement some responsible activities that are acceptable and benefit the dwellers. In this study, corporate social responsibility is the independent variable while firm performance is regarded as the dependent variable. This study believes that changes in the corporate social responsibility activities of a firm will positively influence the performance of firms. When corporate organizations are committed to their social responsibilities towards their community, human resources and the environment, the effect is experienced in the performance of the firms. Figure 2.1 below presents the conceptual framework in explaining the concepts of this study.

Corporate Social Responsibility

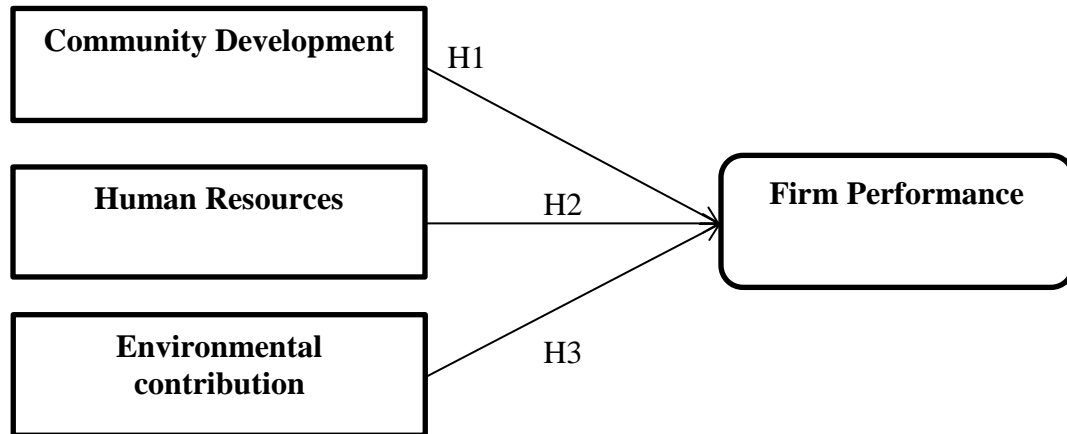


Figure 2.1
Conceptual framework

The next section presents the hypotheses development of this study by highlighting the relationship between the concerned variables in the study.

2.9 Hypotheses Development

2.9.1 Relationship between Community Development Corporate Social Responsibility and Firm Performance

Brugmann and Prahalad (2007) conducted an empirical research on the influence of corporate social responsibility and community development and found a significant relationship between the two constructs. Mahajan (2004) also corroborated the relationship between corporate social responsibility activities and community development by proclaiming that firms agree to have a responsible activities towards the community within which they operate. As such a socially responsible activity towards community development improves the loyalty of consumers towards companies' brand. A sustained patronage of consumers is the rewards of good corporate citizen

responsibilities (Luo & Bhattacharya, 2006). According to Gilden (1994), attention is paid by the consumers to the corporate responsibilities of companies encompassing mainly their community initiatives.

Based on the aforementioned discussion, it is hypothesized that:

***H1:** There is a positive relationship between community development CSR and firm performance*

2.9.2 Relationship between Human Resources CSR and Firm Performance

Stakeholders have been established in the past researches as an important driver of firm performance (Clarkson, 1995). This is substantiated by the direct relationship between the human resources (employees) and the performance of firms (Berman et al., 1999). The corporate social responsibility activity of a corporation that is tended on employees in term of the employee-sensitive policies and practices by firms improves productivity of employees, reduces truancy, and enhances the good employee retention in corporation (Turban & Greening, 1997; Mishra & Suar, 2010). According to Huselid (1995) as cited in Mishra and Suar (2010), employees productivity and firm performance is increased when corporate social responsibility attention are paid to human resources management practices plus provision of training and development programmes for employees, participation of employees in problem solving, progressive remuneration policies.

Based on the above discussion, it is hypothesized that:

H2: *There is a negative relationship between human resources CSR and firm performance.*

2.9.3 Relationship between Environmental Contribution CSR and Firm Performance

In the aspects of environmental contribution, a favourable corporate social responsibility activity increases the financial and NFP of corporate firms (Alvarez et al., 2001). Products, processes and management systems that are environmentally friendly enhances cost savings in firms (Mishra & Suar, 2010). Firms enjoy reduced costs arising from wastages of raw materials, environmental crises, and inefficient production processes when they invest in environmental management systems (Allen, 1992). Adoption of superior environmental standards significantly increases firms' market value by preparing firms to handle stricter regulation in the future and positioning the firm ahead of the competitors (Barret, 1992; Mishra, 2010). Considering the above mentioned discussion, this study hypothesized that:

H3: *There is a positive relationship between environmental contribution CSR and firm performance*

2.10 Summary

This chapter presents the concept of corporate social responsibility by highlighting the shift from the philanthropic orientation to corporate social responsibilities. It further explains the issues of corporate social responsibility in Asia and the factors affecting corporate social responsibility. In addition, the study reviews the previous literature on firm performance. Furthermore, the legitimate theory was employed in this study as the

underpinning theory that explains the relationship between corporate social responsibility and the performance of firms. The development and discussion on the development of hypotheses were also presented in this study. The next section of the study presents the methodological approach employed of this study.



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The research methodology employed in this study is presented in this chapter in order to achieve the above mentioned research objectives. Primarily, this research aims at determining the relationship between corporate social responsibility practices and the performance of industries and Malaysian firms. Hence, the research design, method, and the unit of analysis are presented in details. Next, the population and sampling technique, followed by the data collection method and procedure, and method of data analysis are discussed. The chapter also discussed the instrumentation and the development of the questionnaire, the validity and reliability of the study. Finally the chapter closes by presenting the summary of the chapter.

3.2 Research Design

Research design represents a logical plan that involves several phases, including data collection and analysis, providing answers to the initial set of questions from which conclusion can be made (Yin, 2003). It is the master plan that specifies the method of collection and analysis of the needed information in a research (Zikmund, 2000) and also a blueprint that provides an explanation about research, measurement, sampling, and requirements for data collection and the analysis of the collected data.

Explanatory research design is employed to provide description and further knowledge in explaining certain phenomenon (Sekaran, 2003; Zikmund, 2000). Based on the

nature of this study, it is considered explanatory as it sought to provide further explanation on the difference between MNCs and LMCs on the extent of corporate social responsibility practices.

Other aspects of the research design highlighted in this study include the population and sampling technique, method of data collection and analysis and these are discussed in the subsequent sections of the chapter.

3.3 Population and Sampling

Population of the study represents the entire group of participants that the researcher wishes to investigate (Sekaran & Bougie, 2009). It is a larger group of people or companies from which the researcher will select the participants from which data will be collected and further make inferences because this study investigates the relationship between corporate social responsibility and firm performance and the differences in the extent of corporate social responsibility practices between MNCs and LMCs, sample of this study was selected among the firms in Penang, Malaysia. Thus, a cross-sectional design was used for data collection in this study.

3.3.1 Sample Size

In determining the sample size of a study, it is necessary to indicate the need of the method for determining the sample size, which is a statistical power test (Ticehurst & Veal, 1999). Cohen (1997) emphasized that the determination of sample size should be based on statistical test, but this is only applicable where the size of the study population

is known. Going by the rule of thumb by Roscoe (1975), a sample size bigger than 30 and less than 500 is appropriate.

The statistics of the Companies Commission of Malaysia (CCM) show that about 2,917 companies are registered in Penang, out of which five are dormant (CCM, 2013). Hence, using the rule of thumb from Krejcie & Morgan (1970), a sample of 341 is needed for a population of 3000 while a sample size of 338 is required for a population of 2800. As the population of this study is 2917, a sample size of 341 is deemed adequate for this study. However, Sidek and Backhom (2014) stated that there is difference in the need, goals and the challenges facing the small and large firms in implementing environmental practices. The smaller firms are constrained by limited financial and technical resources in assigning expertise to implement social responsibilities similar to the larger firms. Hence, organizations with number of employees lesser than 50 will implement corporate social responsibilities in a way different from the large corporations (Jamian, Rahman, Ismail and Ismail, 2012).

Therefore, this study after eliminating the organization with less than 50 full-time employees from the population distributed 120 questionnaires out of which seven companies did not respond due to holidays and the absence of the qualified personnel from the office. 113 questionnaire were returned and are deemed qualified to be used for further analysis in the current study.

3.3.2 Sampling Design

A sample is a selected set of participant or individuals drawn from a large population for the purpose of the research (Salant & Dillman, 1994). An adequate sample size is necessary in a research to reduce the cost of sampling error. An appropriate sample size is required for any research because the small sample size may not represent the entire population (Salkind, 2003) as too small sample size may result in a Type 1 error, which is rejecting an hypothesis when it should have been accepted (Sekaran, 2003). And Type 11 error which is accepting a hypothesis when it is supposed to be rejected.

Taking the above situation into consideration, the convenience sample technique allows a researcher to determine a sample size for the data collected considering the accessibility of the respondents and the visibility of administering the research instruments (Sekaran & Bougie, 2009). This sampling technique is the most often use at the exploration stage of research (Sekaran & Bougie, 2009). Questionnaires were distributed to the companies who are conveniently accessible.

3.4 Measurement and Operational Definition of Variables

This section presents the measurement and the operationalization of the variables of this study. The next section presents the measurement of firm performance.

3.4.1 Measurement and Operationalization of Firm Performance

Firm performance in this study is regarded as the achievement of the objectives of firms. A uni-dimensional measure of performance was used in this study. Items for measuring

firm performance in this study were adopted from Mishra and Suar (2010) which measures the general profitability of the firms and cash flow from the operations of the firms. A 5-point Likert type scale was used and which range from “1-Extreemly Low Extent to 5 - Extremely High Extent”.

3.4.2 Measurement and Operationalization of Corporate Social Responsibility

Corporate social responsibility has been defined in several ways by different authors as an operationalization of corporate social responsibility is still a subject of debate (Mishra & Suar, 2010). Richardson, Welker and Hutchinson (1999) defined as optional actions accepted by companies that are planned to improve their social issues. Joyner, Payne & Raiborn (2002) noted that corporate social responsibility are classes of economic, legal, ethical and voluntary activities of a business organization that are adapted to meet the tenets and prospects of society. In this study, corporate social responsibility is referred to as the voluntary activities taken by organizations to conduct its activities in a social, economic and environmentally sustainable manner.

According to Malaysian institute of Certified Public Accountant (1998) corporate social responsibility among the public listed Malaysian companies are of three dimensions of corporate social responsibility: community involvement, environmental contribution and human resources. Thus, this study measured the community development, human resources and environmental contribution dimensions of corporate social responsibility. Items for measuring corporate social responsibility were adapted from Fathilatul and

Ruhaya (2011) by using a 5 point Likert type scale “1-Extreemly Low Extent to 5 - Extremely High Extent”.

3.5 Instrumentation

Besides the research design to be adopted in a research, instrumentation is another important issue that poses a threat to the internal validity (Sekaran & Bougie, 2009). This study aims to collect data by using survey questionnaires; as such the items of the questionnaire were adapted from previous research on corporate social responsibility. The questionnaire is made up of two parts. Part A addressed the demographic profile of the respondents and their companies while part B focuses on the measurement of corporate social responsibility and firm performance. The questionnaire adopted a Likert type scale on which the respondents are requested to select the appropriate option that suites their responses based on the 5-scale that ranges from “1-Extreemly Low Extent to 5 - Extremely High Extent”.

3.5.1 Research Ethical Consideration

Ethical consideration is a set of principles, standards and that guides the researchers' choice procedures of investigation. According to Bryne and Bell (2003), researchers must employ ethical behaviours in the conduct of his/her investigation in order to avoid being infringed on the rights of the respondents. Zikmund et al., (2005) emphasized that ethical consideration in research ensures that the quality of the research is upheld. This research ensures that the following ethical behaviours highlighted by Bouma (2000) are upheld during the data collection stage of this study:

- i. Respondents were treated with dignity and respect
- ii. Ensured that the confidentiality and privacy of the respondents are important
- iii. Respondents were not enforced to participate in this research, but voluntarily participated
- iv. The respondents were assured that the information provided in this research would only be used for the purpose of this research and academic alone.
- v. The respondents were notified of their right to willingly withdraw from the course of the research

3.5.2 Pilot Testing

Upon the completion of the data collection instrument, a pilot study is the next phase required to provide confidence for the researcher. The essence of this is to ensure the researcher that the respondents will comprehend the content of the questionnaire developed. A pilot test was conducted in this study to improve the quality of the questionnaire via the feedback and the suggestion from the pilot sample.

3.5.3 Instrument Validation

There are two fundamental ways in which research instrument can be validated, these are: content validity and construct validity.

3.5.3.1 Content Validation

Content validity is an important stage that must be conducted before the main collection of data. This can be achieved through face validation of instrument (Sekaran & Bougie, 2009). The instrument in this study was given to a research methodology expert to see if there is any mistake in the instrument developed. This was done specifically to avoid issues of double barreled question and ambiguity in the research instrument.

3.5.3.2 Construct Validation

Construct validity is usually tested by determining the internal consistency of a construct. This was achieved by testing of the reliability of the construct by determining the cronbach's Alpha level, which will interpret the reliability of the item of each variable constructs. Cronbach alpha greater than 0.6 for an exploratory research is considered as appropriate while Cronbach alpha below 0.6 are indicative of unreliability. The researcher has to decide either to go for another data collection or drop the construct in case of a low reliability result (Sekaran 2000). Precisely, 30 respondents were used as the pilot sample in this study. The result of the pilot study shows that the research instrument for all the variables were reliable as the cronbach's alpha result posses values greater than 0.6 as recommended by Hair et al (2010).

3.6 Data collection Method

Data for this study will be collected from the senior managers of the selected companies by using a survey questionnaire which was self-administered to the respondents via the companies'. The respondent from the senior managers and above in the companies are

chosen for the research because they have adequate knowledge of corporate social responsibility activities of their companies. Self - delivery technique was adopted for the delivery of the survey questionnaire. The survey questionnaire was deposited in the respondent company in the first visit and an appointment was scheduled with the respondents concerning the pick-up date.

3.7 Method of Data Analysis

The collected data in this study were statistically analysed by using the statistical package for social sciences (SPSS) version 20 to decide whether the developed hypotheses are supported or not. Prior to the main data analysis, data preparation and screening such as coding, data editing, omission and transformation will be done to ensure that the collected data are qualified to be used for the main data analysis. Concerning the main data analysis, correlation analysis will be done to explore the relationship between corporate social responsibility and firm performance and also, regression analysis was used to investigate the significant effect of corporate social responsibility on the performance of firms. In order to examine the statistical difference between the multinational and local firms, independent t-test analysis was employed.

3.7.1 Pearson Product-Moment Correlation

Pearson product-moment correlation was used to determine the linear relationship between two variables (the independent and dependent variable). This study employed correlation analysis to determine the bivariate relationship between the community, human resources and environmental contribution dimension of corporate social

responsibility and firm performance. According to Pallant (2011), the strength and the direction of the relationship between the variables were revealed by using person product-moment correlation.

3.7.2 Multiple Regression

Multiple regression was used in analysing the relationship of the variables. It is used when more than one variable jointly regressed to provide explanations about the variance in the dependent variable. In multiple regressions, R^2 indicates the amount of variance explained in the dependent variable. The result of the multiple regression can be interpreted when the F-statistics and its significance level is known.

3.8 Summary

The methodological approach of this research was presented in this section. Specifically, quantitative research approach was employed and which was conducted in a cross-sectional approach. Primary data were collected from the senior manager of the selected sample company. These are the respondents that are expected to have the full knowledge of the corporate social responsibility activities of their companies. Also, the sampling procedure and techniques, data collection method and analysis employed in this study were also presented in this chapter.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter discusses the findings of the statistical analysis conducted in this study. The first section presents the results of the preliminary test undertaken, followed by the presentation of the results of the descriptive analysis of the respondents and the constructs, in addition, the results of the test stated hypotheses in the study are as well presented. The results of the data screening and cleaning are presented in the following section.

4.2 Data Screening and Treatment

Screening of the collected data for error and abnormalities is the first and important step to be taken prior to the commencement of any statistical analysis (Pallant, 2001). Therefore, screening of data for error that might have arisen due to missing values and researchers mistakes while imputing the data becomes important before the commencement of the main analysis. The essence of the data screening is to avoid errors such as Type 1 and/or Type 11 error). Type 1 error is the probability of rejecting an hypothesis when it is indeed true, while Type 11 error indicates that a null hypothesis is accepted when it should have been rejected (Sekaran & Bougie, 2009). Based on the reasons given above, the data collected in this study were screened for missing data and treated with SPSS version 20.

Missing data is regarded as a source of threat to the validity of the conclusion made by researchers. The degree of threat caused by missing data differs depending on its frequency in a set of data. 1% missing data causes no threat to validity, while the threat caused by 5% is regarded as bearable and it is treated by replacement with the mean of the nearest k-value. 15% missing data possess a great threat and thus requires a sophisticated statistical treatment (Acuna & Rodrigues, 2004). As such, the missing data in this study were replaced with the mean of the nearest k-value as the percentage of the missing data falls within the bearable range.

In addition to the error due to missing value, error due to out-of-range data was also detected and treated by tracing it back to the source in the questionnaire to retrieve the correct response. Hence the incorrect response was replaced by the accurate response. Subsequently, descriptive analysis was re-conducted to confirm the correction made. Upon the confirmation of the successful data screening and treatment of the errors due to missing value and out-of-range error, the researcher checked for the presence of outliers.

4.3 Treatment of Outliers

Outliers mean the presence of some data outside the data distribution. The presence of outliers in a data set threatens the interpretation and conclusion inferred from the statistical analysis. There are various methods in which outliers in a data set can be detected and treated (Pallant, 2011). However, this study used a box-plot technique as recommended by Hair *et al.*, (2013) and detected 6 cases of outliers. Though, outliers

represents the cases that do not represent the concept under observation and could be treated by removal. But this researcher decided to retain the outlying cases as it could represent special characteristics of the respondents (Hair et al., 2013). The next section presented in this chapter is the assessment of the normality test.

4.4 Assessment of Normality

One of the challenges of inferential statistics in social and management sciences is the normality of the distribution of the data collected. This study used box-plot and Kolmogorov and Shapiro Wilks to assess the normality of the distribution of the data collected and the result of the box plot revealed that the data were not normally distributed. Hence, the issue of normality was treated in the data distribution by transforming the data in order to obtain z-value used for the main analysis. The result of the normality test is presented in Table 4.1 below.

Table 4.1
Result of Normality test

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
CD	.213	113	.101	.822	113	.063
HR	.276	113	.073	.846	113	.110
EC	.184	113	.220	.913	113	.143
FP	.230	113	.091	.824	113	.070

a. Lilliefors Significance Correction

4.5 Demographic Characteristics of the Study

This section presents the description of the demographic profile of the respondents and their selected companies for this research. The frequency distribution of this study presents that 32 (28.3%) out of the 113 respondents are from the manufacturing sectors while the remaining 81 (71.7%) belongs to the service sector. Also, 54 (47.8%) companies are multinational companies while 59 (52.2%) are local companies. Concerning the size of the organizations, 59 (52.2%) are small companies having between 51 -100 full-time employees, 37 (32.7%) have between 101 – 150 full-time employees while the remaining 17 (15%) is large companies having more than 151 full-time employees. Furthermore, the frequency distribution revealed that 32 (28.3%) of the respondents are Chief executive officers (CEO) of their companies, 12 (10.6%) are directors, while the remaining 69 (61.1%) are senior managers of their respective companies. Table 4.2 below presents the summary of the demographic characteristics of the respondents.

Table 4.2
Summary of the demographic profile of the study

		Frequency	Percentage (%)
Type of industry	Manufacturing	32	28.3
	Service	81	71.7
Company Status	Multinational Company	54	47.8
	Local Company	59	52.2

		Frequency	Percentage (%)
Organizational Size	51 - 100	59	52.2
	101 - 150	37	32.7
	151 & above	17	15.0
Respondent's Position	Chief Executive Officer	32	28.3
	Director	12	10.6
	Senior Manager	69	61.1

4.6 Descriptive Statistics of the Constructs

The descriptive analysis defines the mean value, standard deviation, minimum and the maximum values of the constructs. Table 4.3 below presents the descriptive analysis of this study.

Table 4.3

Descriptive Statistics of the constructs

	Min.	Max.	Mean	Std. Deviation
Community Development	3	5	3.65	.846
Human resources	2	5	3.74	.980
Environmental Contribution	2	5	3.65	.825
Firm performance	2	5	3.34	.773

As shown in Table 4.3 above, community development has a minimum value of 3, maximum value of 5, mean value of 3.65 and standard deviation of 0.846. Human resource obtains a minimum value = 2, maximum = 5, mean value = 3.74 and standard deviation of .980, indicating that many of the respondents agree that their companies are engaged in corporate social responsibility activities. The minimum value of the environmental contribution is 2, maximum value = 5, mean value = 3.65 and the standard deviation = 0.825, indicating that their companies are engaged in environmental contribution of corporate social responsibility. Similar to the other variables, the minimum value of firm performance = 2, maximum value = 5, mean value = 3.34 and the standard deviation = .773. This indicated that the respondents are indifferent about the firm performance of their company. The following section presents the result of the reliability test conducted in this study.

4.7 Reliability Test

Reliability test was conducted in this study to assess the internal consistency among the collected data. In this study, the result of the reliability shows that all the variables are reliable with the Cronbach alpha for community development = 0.933, human resources = 0.878, environmental contribution = 0.843 and firm performance = 0.951. The summary of the result of the Cronbach's alpha is provided in Table 4.4.

Table 4.4

Reliability Test

Constructs	Cronbach's Alpha	No of items
Community Development	.933	8
Human Resources	.878	4
Environmental Contribution	.843	4
Firm Performance	.951	12

4.9 Hypotheses testing

This study employed both Pearson correlation and multiple regressions for the test of hypotheses. The Pearson product-moment correlation coefficient was employed to determine the significance of the linear bivariate relationship between the independent variables (CD, HR & EC) and the dependent variable (FP). Section 4.9.1 presents the result of the Pearson product-moment correlation analysis

4.9.1 Pearson Product-Moment Correlation Analysis

The Pearson product-moment correlation analysis was employed in this study to determine the strength and the direction of the bivariate relationship between each of the independent variables (community development, human resource and environmental contribution) and the dependent variable (firm performance) (Pallant, 2011). The result of the correlation analysis is presented in Table 4.5 below

Table 4.5
Pearson Product-Moment Correlation Analysis

		FP
FP	Pearson Correlation	1
	Sig. (2-tailed)	
	N	113
CD	Pearson Correlation	.938**
	Sig. (2-tailed)	.000
	N	113
HR	Pearson Correlation	.910**
	Sig. (2-tailed)	.000
	N	113
EC	Pearson Correlation	.955**
	Sig. (2-tailed)	.000
	N	113

**. Correlation is significant at the 0.01 level (2-tailed).

As shown in Table 4.5 above, the Pearson product-moment correlation revealed that the relationship between community development (CD) and firm performance (FP) has a strong positive significant relationship with the coefficient of correlation value (r) = 0.938. The hypothesized relationship between human resources (HR) and firm performance (FP) is strong, significantly and positively related with a coefficient of correlation value (r) = 0.910 while the environmental contribution dimension of corporate social responsibility also has a strong and a significant positive relationship

with firm performance, having a correlation coefficient value (r) = 0.955. Thus the result found evidence to support the hypothesized relationship H1, H2 and H3. Hence, the hypotheses are accepted.

4.9.2 Multiple Regressions

The result of the multiple regression analysis in this study as shown in Table 4.6 shows that R- squared (R^2) = 0.957, therefore, 95.7% of the variance in firm performance is explained by the independent variables (CD, HR & EC).

Table 4.6
Model Summary

Model	R	R^2	Adj.	Std.	Change Statistics				
			R^2	Error	R^2	F	df1	df2	Sig. F
					Change	Change			Change
1	.979 ^a	.957	.956	.161	.957	818.483	3	109	.000

Furthermore, the result of the analysis as shown in Table 4.6 revealed a statistical significant relationship between corporate social responsibility (CD, HR & EC) and firm performance (FP). The equation of the analysis ($F(3, 109) = 818.43$, $P < 0.05$). The significant value obtained = 0.000 which is lesser than the significant level 0.05. Therefore, the null hypothesis is accepted which means corporate social responsibility activities are positively related to firm performance. The result of the analysis shows

that all the hypothesized relationships between the independent variables (CD, HR & EC) and the dependent variable (FP) are significant. Therefore, hypotheses H1, H2 and H3 are accepted.

Table 4.7
Anova

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	64.015	3	21.338	818.48	.000 ^b
	Residual	2.842	109	.026		
	Total	66.857	112			

a. Dependent Variable: FPMean

b. Predictors: (Constant), ECMean, Herman, CDMean

From Table 4.8 below, the result of the analysis shows that environmental contribution (EC) among the independent variables has the largest contribution (53.2%) in explaining firm performance ($\beta = 0.532$), followed by community development (CD) which has 28% contribution ($\beta = 0.280$) and the least is Human resources (HR) 20.5 % ($\beta = 0.205$).

Table 4.8
Coefficient

Model	Unstandardized Coefficients		Standardized Coefficient	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.193	.296		4.030	.000
CD	.256	.050	.280	5.128	.000
HR	-.162	.037	-.205	-4.318	.000
EC	.499	.041	.532	12.032	.000

a. Dependent Variable: FPMean

4.10 Summary

Based on the statistical analysis conducted in this study, findings were found in the hypothesized relationships and the result shows that community development, human resources and environmental contributions are statistically related to firm performance.

The summary of the findings of this study is shown below.

Table 4.10

Summary of Findings

	Hypotheses	Decision
H1	There is a significant positive relationship between community development and firm performance	Supported
H2	There is a significant negative relationship	Supported

	Hypotheses	Decision
	between human resources and firm performance	
H3	There is a significant positive relationship between environmental contributions and firm performance	Supported



CHAPTER FIVE

DISCUSSION AND CONCLUSION

5.1 Introduction

This chapter of the study discusses the findings of the statistical analysis of this study. Also, the limitation, contribution and the recommendation for future study, and the conclusion inferred from the research are presented.

5.2 Overview of the Research

This research focuses on the relationship between corporate social responsibility and firm performance. The study dimensionalizes corporate social responsibility into community development, human resources and environmental contribution while firm performance has one dimension. The selected scope of the current study is the companies in Penang, Malaysia. It includes both the multinational and the local Malaysian companies in Penang.

Based on the proposition of the legitimacy theory that provided an explanation on the relationship between corporate social relationship and the performance of firms. The study developed three hypotheses between community development, human resources and environmental contribution with firm performance. In addition, it also hypothesizes a relationship to differentiate the practices of corporate social responsibility between multinational and local companies. In order to achieve the objectives of this study, a survey questionnaire was used to collect primary data from the selected companies. SPSS was used to analyse the data collected. Specifically, the demographic profile of

the respondents was explored while correlation analysis and multiple regression analysis were used to test the formulated hypotheses and the result revealed that all the hypothesized relationship are supported.

5.3 Discussion

This study aims at determining the relationship between corporate social responsibility and firm performance. Specifically, it aimed at determining the relationship the relationship between community development, human resources and environmental contribution. In addition, it also aimed to determine the difference in the extent of corporate social responsibility between the multinational and the local companies. As such, four hypotheses were developed to achieve these objectives.

The next section presents the discussion of the relationship between community development and firm performance.

5.3.1 Discussion of the relationship between community development and firm performance

The first hypothesis posited that there is a positive relationship between community development CSR and firm performance. The test of the hypothesis of this study found an evidence to support the relationship. This indicates that an increase in the community development practices of firms results in an increase in the firm performance of that firm. This result is similar to the findings of Brugmann and Prahalad (2007) who found that community development positively influence the performance of firms. In addition,

the finding of this study is corroborated by Mahajan (2004) who assert that social responsibility activity towards community development improves the loyalty of consumers towards the companies' brand and thus, improves the performance of firms.

5.3.2 Discussion of the relationship between human resources and firm performance

The second hypothesis of this study posited a negative relationship between human resources and firm performance. Expectedly, the result found an evidence to support the hypothesized relationship. The result implies that more a firm contributes to improving human resources, the better will be the level of performance achieved by the firm. The finding is similar to Turban & Greening, (1997); Mishra & Suar (2010) who revealed that the corporate social responsibility activity of a corporation that is tended towards employees in termination of the employee-sensitive policies and practices by firms enhances productivity of employees, reduces absenteeism, and enhances the retention of quality employees in a corporation which in-turn improves the performance of that firm. Furthermore, Huselid (1995) stated that employee productivity and firm performance are increased when corporate social responsibility, attention is paid to human resource management practices, including provision of training and development programmes for employees, participation of employees in problem solving, progressive remuneration policies.

5.3.3 Discussion on the relationship between environmental contribution and firm performance.

The third hypothesis developed in this study posited that there will be a positive relationship between environmental contribution and firm performance. The result of the test of the hypothesis found an evidence to support the posited relationship which indicates that an increase in the environmental contribution of the firm will result in an increase the performance of that firm. Similar to the previous studies of Mishra & Suar (2010) who regarded that the products, processes and management systems that are environmentally friendly enhances cost savings in firms. Firms enjoy reduced costs arising from wastages of raw materials, environmental crises, and inefficient production processes when they invest in environmental management systems (Allen, 1992). According to Barret (1992) and Mishra (2010), when superior environmental management standards are adopted in firms, there a significant increase in firms' market value of preparing firms to handle stricter regulation in the future and positioning the firm ahead of the competitors (Barret, 1992; Mishra, 2010). Thus, this research found that environmental contribution is significantly positively related to firm performance.

5.4 Research Implications

5.4.1 Empirical Implications

This research has contributed to the theoretical perspective in several ways: firstly, the research has been able to reveal the relationship between corporate social responsibility and firm performance in the context of Malaysia. It has specifically highlighted that community development, corporate social responsibility is positively related to firm

performance. Secondly, the study is also significant by revealing a positive relationship between human resource dimension of corporate social responsibility and firm performance. Thirdly, the study also revealed that environmental contribution dimension of corporate social responsibility is positively related to firm performance. The findings of this study have shown that the practices of corporate social responsibilities among the multinational companies are different from the local companies. This indicates that the way multinational companies implements their corporate social responsibilities is different from the local companies. In addition, the study has been able to contribute to the entire body of knowledge in the domain by adding to the existing literatures in the domain of corporate social responsibility in a developing nations.

5.4.2 Practical Implications

The result of the study has shown that corporate social responsibilities are capable of influencing the performance of firms. It has further shown that among the factors, environmental contribution contributes more than the other in explaining the variance in firm performance. Therefore, it indicates to the practitioners (companies) that, in order to achieve better firm performance, more attention should be given to the environmental contributions aspects of corporate social responsibility.

5.5 Limitation of the Research and Recommendation for Future Studies

This research is conducted in a cross-sectional view as the data used in this study were gathered at one period of time. However, it should be noted that realization of corporate

social responsibility might not be immediately shown on the performance of firms. Therefore, future researchers are implored to use a longitudinal data of time horizon at which data from this similar study will be collected over a long period of time, in order to inculcate the long-term benefit of corporate social responsibility.

In addition, this study collected data about the independent variables (corporate social responsibility) and the dependent variable (firm performance) from a single source which gives a potential for a common method variance bias. Thus, future researchers may collect its data by using a secondary data from the organizational report to avoid bias as a result of common method bias.

5.6 Conclusion

In concluding the report of this study, three research hypotheses were formulated for the accomplishment of the objectives in this study. Specifically, objective one aimed at determining the relationship between community development, corporate social responsibility and the performance of firms. The second objective aims to examine the relationship between human resources, corporate responsibility and firm performance in Malaysia. While the third objective investigated the relationship between environmental contribution, corporate responsibilities and firm performance. The result of hypotheses H1 and H3 highlighted that there is a positive relationship between community development and environmental contribution to firm performance., while hypothesis H2 indicated that the relationship between human resources and firm performance is

negative. Thus, it is concluded that the higher the contribution of firms to corporate social responsibility, the more its level of performance is achieved. Hence, it is shown in this study that the objectives stated earlier in the section 1.3 of the first chapter of the study are achieved.



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