

**CORPORATE SOCIAL RESPONSIBILITY
IN THE CONTEXT OF FINANCIAL SERVICES
SECTOR IN MALAYSIA**

By

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DECLARATION

This work has not previously been accepted in substance for any degree and is not concurrently submitted in candidature for any degree.

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Date 31st March 2011

STATEMENT 1

This thesis is being submitted in partial fulfillment of the requirements for the degree of PhD (Business Studies)

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ABSTRACT

Malaysia is an ever-growing business hub in Asia. Due to the fact that Malaysia has diverging socio-economic, cultural, ethnic groups, and ethical systems, this study seeks to find out multicultural impacts on corporate social responsibility (CSR) issues and practices in the country. This study encompasses top and executive managers in financial services sector in Malaysia. A total of 1000 questionnaires were given out to the respondents in different segments of financial institutions in Malaysia namely commercial banks, investment banks, brokerage firms, fund management companies, insurance companies, unit trust companies, and large public fund organisations. The questionnaire used in this study was modified from Aupperle, Carroll and Hatfield (1995), Maignan and Ferrell (2000), and Maignan (2001). The questionnaire was used to measure perceptions about CSR elements as proposed by Carroll (1991): economic, legal, ethical and philanthropic responsibilities. The results indicated that top and executive managers ranked ethical responsibilities as the most important CSR duties for corporations. The results from the factor analysis revealed four drivers that were able to motivate corporations to practice CSR namely local and global forces, corporate image, economic performance, and cultural awareness. A depth observation across ethnicity of the respondents revealed that there are no homogenous results, especially with regards to Carroll's CSR elements. The finding clearly demonstrated a separation of opinions between Malaysian *bumiputera* and Malaysian non-*bumiputera* respondents. This is potentially a significant finding since culture gives a significant impact on people attitude, behaviour and perception. The findings from this study suggest a unique CSR model for Malaysia and it is hoped to be the guide for local and international companies that is operating and that will be operating in this country.

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CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

The issue of corporate social responsibility (CSR) has gained a significant agenda among business communities. According to Falck and Heblich (2007), the term CSR was first formalised in 1953 when Bowen published the seminal book called ‘Social Responsibility of the Businessman’. A decade later, several authors, including Davis (1960), Frederick (1960) and Walton (1967) undertook further development of the CSR concept (Falck and Heblich, 2007). Since then, CSR has been the subject of considerable investigation and debate among both researchers and practitioners (Ibrahim and Angelidis, 1993).

This scenario stemmed from the advent of globalisation and international business trade, which have reflected in increased business complexity and new demands for enhance transparency and corporate citizenship (Jamali and Mirshak, 2007). The term corporate citizenship, which is becoming popular in the business world (Matten et al., 2003; Morrison, 2003) was believed to boost in 1996 when former USA President, Bill Clinton called to Washington a group of leading business people to discuss the notion of corporate citizenship and social responsibility. At this conference, Clinton exhorted the business leader to ‘do well’ by their employees as they make money for their shareholders. Corporate citizenship designates the activities and organisational processes adopted by corporation to meet their social responsibilities (Maignan et al., 1999).

Matten and Crane (2005) argued that corporate citizenship is a specific construct that sheds new light on the role of business in society via its emphasis on the more politically derived concept of citizenship. The suggestion is that the business organizations are 'legal entities with rights and duties, in affect, citizens of states within they operate' (Marsden, 2000. Palacios (2004) pointed out that corporate citizenship has been analysed in terms of moral values and ethical arguments, but being a good corporate citizen is increasingly viewed as good business practice. To this extent, therefore, corporate citizenship can be seen as focusing on the balance of rights and responsibilities deriving from a corporation's legal and social status within a community, its influence and ability to create change, and the need to participate in the community's political life (Goddard, 2005). Consequently, being a good corporate citizen has been widely identified as an important criterion for socially responsible business organization (Carroll, 1991).

The idea embedded in CSR is that organisations have an obligation to work for social betterment (Frederick, 1994). It is argued that business corporations not only have economic responsibilities of being profitable and legal responsibilities to follow the laws and regulations that guide their ability to achieve economic purposes, but they also have ethical responsibilities that include a variety of cultural norms and standards (Carroll, 2000). This view contrasts with the perspective that CSR is seen as a strategic tool to achieve economic objectives and wealth creation (Garriga and Melé, 2004). Representative of this school is the well known Friedman (1970) viewpoint, that the only responsibility of business towards society is the profits maximisation to the shareholders within the legal framework and the ethical custom of the country. According to this view, by pursuing social and environmental objectives, businesses may ultimately hurt

shareholders by generating lower profits (Blowfield and Frynas, 2005). Furthermore, business are said to lack the expertise to engage in solving social problems.

From Friedman's perspective, managers in a free economic system are obliged by contract to shareholder value; it is their primary task to maximise the value of the firm. Managers' actions are bound only by legal guidelines; the economic rules. Commitment beyond legal requirement to general social interests is in breach of this postulate, as there are no corresponding gains; thus such commitment should not be undertaken (Falck and Heblich, 2007). If managers want to work towards the betterment of society, they should do it as private individuals at their own expenses, not as agents at their principals' expenses (Friedman, 1970). Further to this argument, Friedman (1996) and Levitt (1983) seem to believe that it is government's responsibility to provide needs for all kinds of individual and community. Novak (1996) stated that business organisation is not a welfare agency, but is rather an economic association with specific and limited responsibilities. Devotion of business resources to social activities is contrary to an applied contract with investors to maximise their profits and is, in effect, tantamount to stealing stockholders' money (Lantos, 2001).

Even though the main concern in the Friedman view is for wealth creation, this concern is rooted in certain cultural values regarding the free market, private property and the fact that wealth creation is good for society (Garriga and Melé, 2004). At the same time, he accepted the rules of the free market, laws and ethical customs in each place. The social objectives and demands of society come under business consideration only through the law applied by the political system (Garriga and Melé, 2004). On the contrary, other school of thought believes that economic aspect (profit) is not the only social

responsibility of the business organisation. This group argues that business depends on society for its existence, continuity and growth. As a consequence, business organisations should take into account social demands and integrate them in such a way that the business operates in line with social values (Garriga and Melé, 2004). Arguments in support of CSR are based on ethical or instrumental rationales. Ethical arguments are derived from religious principles, philosophical framework or prevailing social norms. Jones (1999) asserted that business organisations basically are compelled to behave in a socially responsible manner because it is the morally correct to do. He further argued that ethics-based advocates of social responsibility generally support such behaviour even in instances in which it involves unproductive resources expenditure for the organisation.

Vaughn (1999) claimed that business involvements in strategic CSR activities should properly be viewed as investment in a 'Goodwill Bank' which yield long-term financial returns (McWilliams and Siegel, 2001). By being socially responsible, firms can proactively anticipate and deter government regulations, exploit opportunities arising from increasing level of cultural, environmental and sexual awareness and differentiate their products from their less socially responsible competitors. In practice, several studies have been carried out to determine the correlation between CSR activities and financial performance. Almost all results show a positive correlation between the two variables (see for example, Frooman, 1997; Griffin and Mohan, 1997; Key and Popkin, 1998; Roman et al., 1999). However, according to Garriga and Malé (2004) these empirical findings have to be read with caution since such correlation is difficult to measure (Griffin, 2000; Rowley and Berman, 2000).

World Business Council for Sustainable Development define CSR as, “the continuing commitment by business, to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large” (<http://www.wbcsd.com>). More specifically, Carroll (1979) claims that business organisations should not only be judged on their economic success but also on non-economic criteria. Carroll highlights that business organisations are faced with four types of social responsibilities: economic, legal, ethical and discretionary.

Economic responsibilities include the obligations to be productive, to be profitable and to meet consumption needs. Legal responsibilities imply that business organisations must fulfil their economic mission within the framework of legal requirements. Ethical responsibilities concern society’s expectation that business organisations follow established moral standards. Discretionary responsibilities are tantamount to philanthropic responsibilities and reflect society desire to see business organisations make contribution to various kinds of social, educational, recreational or cultural purposes (Carroll, 1979). As a result, based on this classification, good corporate citizens can be expected to assume their social responsibilities by engaging in economic, legal, ethical and discretionary citizenship (Maignan et al., 1999).

Based on this model, the first two aspects of CSR (economic and legal) are the mandatory part of the business responsibilities. The third and last aspect (ethical and philanthropic) are not mandatory and merely should be done by business organisations, although is not necessarily ‘expected’ (Matten et al., 2003). Matten et al., (2003) further argued that these latter two aspects are central to the area of study of CSR, since they

differentiate corporate behaviour from mere compliance, but also are the most controversial due to the normative nature of these two types of responsibilities. Carroll subsequently incorporated each of these components into a hierarchical ‘Pyramid of Corporate Social Responsibility’ (1991). While not all CSR enthusiasts would totally agree with every detail of this thinking, the pyramid does highlight the multi-dimensional nature of stakeholder concept and the expectation that business organisations should serve secondary as well as primary stakeholder groups (Robins, 2005).

The fundamental idea of CSR is that companies are being held accountable (Hackston and Milne, 1996; Ibrahim et al., 2004) to multiple stakeholder groups (Tinker and Lowe, 1980; Clarkson, 1995; Waddock et al., 2002; Zairi and Peters, 2002). Stakeholder theory, which initially inspired by Freeman (1984), looking at potential groups in society and analyses the relationship of the corporation to these groups. The stakeholder concept is intended to broaden management’s vision of its roles and responsibilities beyond the profit maximisation functions to include interests and claims of non-stockholding groups (Mitchell et al., 1997). Stakeholder theory holds that corporate executives develop, implement and evaluate strategies in order to manage their relationships with the stakeholders most important to the corporation’s success. The standard definition of this concept can be stated as follows:

“...stakeholder in an organisation is any group or individual who can affect or is affected by the achievement of the organisation’s objectives.”
(Freeman, 1984, p. 46)

Clarkson (1995) defines stakeholders as the ‘persons or groups that have or claim, ownership, rights or interests in a corporation and its activities, past, present and future’ (Clarkson, 1995). Stakeholders consist of both primary and secondary stakeholders.

Primary stakeholders include those directly associated with the corporation, such as shareholders, investors, employees, customers, suppliers and the public stakeholder group; the governments and communities that provide infrastructures and markets, whose laws and regulation must be obeyed, and to whom taxes and other obligations may be due (Clarkson, 1995). Secondary stakeholders comprise of those that are not directly engaged in transaction with the corporation and are not essential to its survival, such as the media and special interest groups (Clarkson, 1995).

Stakeholder theory claims that business organisation has a responsibility to all those groups who are harm by, or benefit from the company and/or whose rights will be affected either positively or negatively (Evan and Freeman, 1993). Much of the wide acceptance of stakeholder thinking can be credited to its plausibility, based on descriptive and instrumental arguments (Donaldson and Preston, 1995) – that is, that managers appear to consider particular groups rather than society as a whole (descriptive); and that by doing so, performance might be improved (instrumental) (Matten et al., 2003). However, according to Donaldson and Preston (1995), the central notion of stakeholder theory is normative, in that corporations actually have a moral obligation to all stakeholders (Gibson, 2000; Wijnberg, 2000). Within this context, different stakeholders may have different preference for specific socially responsible activities they would like to see their firm invest in (Grass, 1999).

A growing body of evidence seems to suggest that cultural differences affect CSR dynamics with companies in different context exhibiting varied CSR approaches to this change in the business conduct landscape (Jamali and Mirshak, 2007, Kampf, 2007). Research conducted by Jones (1999) highlighted the importance of the national socio-

cultural environment and the level of national economic development as significant variables influencing CSR practice. Hofstede (1980) defines culture as the norms, values and beliefs of a particular group or community in a particular area or geographic location which is shared by its members. Hofstede (1991), Trompenaars (1993) and Czinkota and Ronkainen (1993) agreed that culture is based on languages, economy, religion, politics, social institutions, class, values, status, attitudes, manners, customs, material items, aesthetics and education which subsequently influence managerial values (cited from Kanungo, 2006).

Fatehi (1996) stated that business organisations were dependent on the effective interaction within the environment for maintaining existence and survival. This dependency includes the relationship between the organisational and the cultural values. In the context of global business, Amba-Rao (1993) argued that business organisations explicitly build corporate responsibility by inculcating values into business strategy. He further argues that, understanding cross-cultural practices are essential in order to maintain business activities. More importantly, Bonthos (1994) found that the primary reason for business failures is inadequate information regarding the business environment and lack of understanding of foreign culture. He suggests that people in different cultures respond in different ways, and have different value systems, which makes for difference in business practices. As a result, cultural system in a given country will influence the way business organisations interpret, practice and communicate CSR agenda. Roome (2005, p. 323) pointed out that:

“...the CSR agenda, followed by leading companies in a country, is influenced by the cultural norms, traditions, rules and formal institutions of the country within which the company has its headquarters and by the historical development of societal governance operating in that country.”

1.2 BACKGROUND OF THE RESEARCH

“The whole population of Malaysia numbers no more than that of Australia, but culturally, it is most diverse. This is one of the country most attractions. Even the most superficial observer cannot but be charmed by the constant contrast between the various peoples; to the most observant it is a constant challenge to understand and appreciate this cultural backgrounds.” (Tregonning, 1966, p. 10)

Malaysia is a country of great cultural, ethnic group and religious diversity (Pope et al., 2002). It is made up of two distinct regions: Peninsula Malaysia and Sabah and Sarawak. The population is approximately 27.5 million people consisting of 57 percent native Malays, 24 percent ethnic group Chinese, nearly 7 percent ethnic group Indians and the rest indigenous peoples (referred to, along with the Malays as *bumiputra* – means son of the soil). Almost all Malays are Muslim, most Chinese are either Buddhists or Christians, most Indians are either Hindus or Christians and most indigenous peoples are animists. While this may be colourful sight in the country, it cannot avoid tensions and misunderstanding due to lack of awareness of one culture or the other (McLaren and Rashid, 2002).

Historically, Malaysia or formerly known as Malaya was controlled by first the Indians (400 B.C.E.), then the native Malays (1445-1511), next the Portuguese (1511-1647) and then the Dutch (1647-1824); all the while, the Chinese kept political and economic relationships with each new ruler (Winstedt, 1981). None of these nations desired to colonise the whole of the area but only to control the shipping lanes in the Straits of Malacca (Pope et al., 2002). The British gained a toehold in Malaysia in 1786 when they developed a settlement on Penang Island (at the Northern beginning of the Straits of Malacca) and then in 1819 when they developed a settlement at Singapore (at the

southern end of the Straits of Malacca). According to Tregonning (1966, p. 18), nearly all of the native Malay community accepted the British rule as “the British work with them, respecting their faith, their social structure and their rulers”. This was the strength of the British and led to their successful rule. World War II, however, was the beginning of the end of the British colonisation of Malaysia (Tregonning, 1996; Winstedt, 1981). Facing a rising nationalism, the British gave Malaysia its independence in 31 August 1957.

Under the British colonial rule, social structure was marked by ethnic group pluralism, while the emerging export economy was distinguished by segmentation along ethnic groups lines (Devi et al., 2004). The Malays were said to be marginal in an economic dominated by Europeans (mainly British) and, to a lesser extent, the large Chinese immigrant group (Jesudason, 1990). Rani (1991) claimed that most of the Malays survived as farmers in rural areas and the Indians were mainly confined to the rubber plantations. In the manufacturing sector, the colonial officials subscribed to an international division of labour in which the colonies would produce commodities and the manufactured goods. Brown (1994) emphasised that the concern of British colonialism was to modify the structure of the Malaysian economy away from one focused on subsistence agriculture and regional trade, towards one focused upon the export to Britain of raw materials – mainly tin, rubber and timber – and the importation of consumer goods. In order to promote this restructuring, the British encouraged the immigration of labour. However, colonialism was said to have brought a great deal of economic dynamism to Malaysia (Jesudason, 1990). It installed a competitive economy in place of a quasi-feudalistic economy and introduced the abstract notion of economic development as an end for the government to pursue (Jesudason, 1990).

During the post colonial era, British left a legacy upon which all modern is built – a legacy of ‘communalism’ (division into Malay, Chinese and Indian communities), of educational institutions bearing their imprint, of remarkable roads and transportations and of a constitutional monarchy in which a king is elected every four years from among the nine sultans who rule the Malaysian state. In terms of economic activity, the State supported the *laissez-faire* approach to a fairly large extent (Dewi, et al., 2004). The interest of foreign businesses and Chinese businessmen appeared to have been protected. Increasingly, however, Malay interest continued to demand more aggressive action from the state to promote their interest. Foreign capital expansion was seen to be most pronounced in the manufacturing sector. The government did all it could to attract foreign investment by providing investment incentives such as pioneer status incentives and import tariffs (Dewi, et al., 2004). At the time of independence, Malay business development was very much at a feeble level. Most Malay businesses were small and concentrated in traditional cottage industries such as batik cloth making, rattan products and ornaments. The ratio of business units to the population was 1:632 for the Malay, compared to 1:40 for the Chinese population (Hai, 1962). Ethnically, the incidence of poverty in 1970 was 74 percent for Malays, 26 percent for the Chinese, 39 percent for the Indians and 45 percent for other ethnic groups. In corporate equity terms, *bumiputra*, *non-bumiputra* and foreign participant was set at 2.4 percent, 32.3 percent and 63.3 percent respectively in 1970. Given this weaknesses, it was not surprising that business development during the 1960s was closely linked to state support.

In the case of Malaysia, business environment is largely influence by the multiracial, multiethnic society; where each ethnic group has been able to retain its fundamental culture, beliefs and traditions (Schermerhorn, 1994). The differences in the cultural

values could also lead to differing views on what is considered right or wrong in one culture or inappropriate in another culture (Frederick et al., 1992). In the Malaysian business context, Malays are motivated by their affiliation to groups, families and individuals. According to Abdullah (1992) the Malays respond better to productivity increases as if they see benefits accruing not only to the business organisation but also to their family, community and nation. Malays are attracted to concrete tangible rewards. They are also satisfied doing work if they have opportunity to show and receive appropriate respect from superior, peers and subordinates. The Malays uphold the value of self-respect or face, politeness, sensitivity to feeling and value relationships. An apologetic behaviour is a symbol of humility to the Malays (Abdullah, 1992). According to the Malaysian constitution, a Malay is defined as a Muslim by religion. As such, the Malays believe strongly in the concept of Supreme Creator – Allah the Almighty. Therefore, the Malays expect their leaders to act as role models who are spiritually and religiously in tune.

On the other hand, the Chinese are motivated by financial rewards (Hamzah, 1991). They value hard work or diligent, pragmatic, wealth or prosperity, face, harmony and risk taking. It was also observed that the Chinese relationship between superior and subordinate in work and education was based on the Confucian ideal of filial loyalty. The Chinese appeared to be indifferent or have less concern on religious matter. The majority of Chinese were observing the Buddhist-Taoist faith, and a small group is observing the Christian faith (Rashid and Ho, 2003). However, Wu (1989) pointed out that the Chinese culture emphasises the respect for superstition.

The Indians value the extended family with hierarchically structured authority (Chatterjee, 1987). The Indians are characterised for their loyalty, hard work, egalitarian and organisation ability. They also value face, fear of God, sense of belonging, 'karma' and filial piety. In terms of religious faith, the Indians predominantly Hindus, but smaller proportions are following Islam and the Christian faith (Rashid and Ho, 2003). According to Khandwala (1980), Indian managers are speedy and have reliable information control systems, a high degree of altruism prominent among employees who are ready to sacrifice themselves for their firms and their employers for no other remuneration than an inner sense of duty or loyalty.

The advent of globalisation and international trade has attracted a number of multinational companies (MNC) to operate in Malaysia. Globalisation refers to a growing economic interdependence among countries, as reflected in the increased cross border flow of three types of entities: goods and services, capital and know-how (Govindarajan and Gupta, 2001). Drucker (1995) argued that globalisation and international trade has culminated in the emergence of global economy consisting of flows of information, technology, money and people, and is conducted via government international organisations such as the North American Free Trade Agreement (NAFTA), World Trade Organisation (WTO), cross-border alliances, international mergers and acquisitions. In Malaysia, the development of Cyberjaya, International Offshore Financial Centre, Labuan and the latest of Iskandar Development Region (IDR) are amongst the initiatives of the government of Malaysia to attract foreign investors in order to enhance economic growth and to promote stability in this country.

The challenges of globalisation, particularly for Western companies operating in Asia is to take into account of the challenges of behaving responsibly in accordance with the norms of their own and their host countries (Chapple and Moon, 2005). Moreover, it has also been recognised that CSR framework exercised by Western companies is best associated with the Anglo-American business system (Matten and Moon, 2004). Blowfield and Frynas (2005) argued that the notion of CSR are not unique to the West due to the fact that the rediscovery of ‘social’ concerns of business in Anglo-American countries stems from a more rigid division between ‘social’ and economic affairs and the stress on individualistic – rather than communitarian – values. Given that Malaysia is characterised by multicultural society, it is assumed that CSR model practiced by Anglo-American companies need to be harmonised with a local socio-economic culture before it can be implemented in the country.

The rationale of this research is based on the fact that the importance of international Western style of CSR is increasingly recognised as a benchmark of investors all around the world in today’s global economy. Given the major differences between Malaysia and Western countries in the various political, economical, social, cultural and ethical factors which influence CSR, it is understandable that the setting of CSR framework has taken a different path in Malaysia. This study will explore how the consideration of multicultural factors can contribute additional explanatory power to understanding CSR implementation in Malaysia.

1.3 JUSTIFICATION OF THE RESEARCH (RESEARCH QUESTIONS)

A study of CSR has become the subject of research for many academies in the field of accounting and business practices. Forces in today's fast growing world economy and globalisation provide incentives for increase CSR practice. Since the early 1990s, the importance of CSR has grown considerably. According to Vogel (2005), more than 1000 corporations have developed or signed codes of conduct governing dimensions of their social, environmental and human rights practices, and more than 2000 business organisations now issue reports on their CSR practices. International organisations, such as the United Nations, the World Bank and the Organisation for Economic Cooperation and Development (OECD), actively promote CSR, as do several European governments and the European Union.

Despite increasing attention has been accorded to CSR in developed countries, very few is known of the research of CSR in developing countries. In addition, research into CSR in Asia Pacific region has been varied and incomplete (Teoh and Thong, 1984; Andrew, Gul, Guthrie and Teoh, 1989). Belal (2001) noted for example most research done so far in this area concentrated in Western Europe, USA and Australia. Even most of existing studies of CSR and cultural differences have generally focused on analysis of the differences and similarities of CSR practices in these countries and we still know little about practices in ex-colonial, smaller and emerging countries. A study by Abreu et al., (2005) on the CSR-related experience and practice of Portuguese companies noted cultural differences, pointing to the need for more research on the socio-cultural determinants of CSR in the newly expanded European community. Research by Juholin (2004) in the Finish context suggested the important of managerial initiative, the limited attention accorded to philanthropy and long-term profitability as the prominent driving

force behind CSR in Finland. Another study done by Uhlaner et al., (2004) suggested the usefulness of a mix of CSR perspectives (economic benefits, conformance to legal and ethical expectations and philanthropic/community involvement) as helpful in explaining variations in CSR orientations amongst a sample of Dutch family firms.

The fact that Malaysia has diverging socio-economic, cultural and ethical system, this study addresses an insight/details analysis of CSR harmonisation from different perspective. The study provides unique and meaningful literature to explain multicultural impacts on CSR and provide a platform from which more culturally-harmonised CSR model might develop in Malaysia. In order to achieve this objective, the study will capitalise a well known CSR model “The Pyramid of Corporate Social Responsibility” developed by Carroll (1979) to discuss and analyse how this model can be applied, modified and implemented in the Malaysian business context as a modern harmonised international practice. In addition, the study also attempts to provide guidance for business organisations in assisting them to locally and internationally understand and practice CSR to wider stakeholders.

Generally, a number of studies have been conducted so far in the area of CSR in Malaysia. However, most of the previous studies pertaining to CSR have focused on the usefulness of CSR disclosure, perception of CSR, and development of CSR reporting from Islamic perspective (see for examples, Teoh and Tong, 1984; Rashid and Abdullah, 1991; Haniffa, 2002; Rashid and Ibrahim, 2002; Zakaria and Isa, 2003; Thomson and Zakaria, 2004). More interestingly, Dusuki, (2005) has conducted a study on CSR in Islamic perspective. His study develops an alternative CSR model exclusively for Islamic banking industry in Malaysia. Based on the Shari`ah prescriptions, the study offers a

pragmatic benchmark for social responsible activities that Muslim society would expect Islamic banks to provide. There were also several studies that have been conducted in comparison between Malaysia and other countries (see for examples, Foo and Tan, 1988; Andrew et al., 1989; Chan, 2000; Chapple and Moon, 2005).

The above published literatures showed that a number of academicians have investigated CSR practices in Malaysia. However, to the knowledge of the researcher, there is no such research conducted in the wider context of financial services sector in Malaysia especially dealing with CSR and the sub-cultures determinant of social responsibility. Therefore, it is hope that this study will contribute towards the development of CSR literature in Malaysia and fill the gap in this field.

In the light of the above considerations, the following specific research questions are addressed in this study:

1. What are the characteristics of Malaysian non-homogenous society that make it unique and different in comparison with other country?
2. What is the general understanding of top and executive managers in financial services sector in Malaysia towards the concept of CSR?
3. How top and executive managers in financial services sector in Malaysia perceive the importance of CSR involvement as components of business decision making?
4. What are the perception of top and executive managers in financial services sector in Malaysia related to CSR orientation and priorities based on Carroll's CSR Pyramid (1991)?
5. To what extent do top and executive financial managers' attitudes differ across sub-cultures identity and demographic background?

1.4 OBJECTIVES OF THE RESEARCH

This study employs a different approach from an existing CSR research as it analyses in detail the impact of sub-cultures on CSR understanding and practices in Malaysia. This represents a unique synthesis of CSR literature as it focuses on the country which shares different cultural, norms and religious issues. The specific objectives of this study, however, are:

1. To analyse the current practice of business CSR in Malaysia.
2. To critically evaluate the impact of sub-cultures on the determinant of the development of CSR in Malaysia and how it interacts with international Western standard of CSR.
3. To investigate the perception of top and executive managers in financial services sector in Malaysia towards current practice and issues of CRS in Malaysia.
4. To offer regulators and policy makers in Malaysia an alternative CSR framework that fits local and international requirements of CSR standards.

1.5 SCOPE OF THE RESEARCH

The study explores the impact of sub-cultures in determining CSR practices in Malaysia. In order to achieve the objectives of the research, this study focuses primarily on three major ethnic groups in Malaysia, namely, Malay, Chinese and Indian. In the post colonial era, Malaysia experienced rapid growth in the economic development (Tan, 1982) especially in manufacturing sectors. The adoption of laissez-fair economic model encouraged foreign trade and investment (Lim and Canak, 1981) into the country. As a result, the Malaysian business sector was largely monopolised by the Chinese and foreign business interests (Devi, 2004). However, the lack of technological and performance condition led to the proliferation of ‘screw-drivers’ operations behind high tariff walls (Edwards, 1975). There were also no strategies for supporting financial research, training and market promotion. It is a little wonder that manufacturing’s contribution to gross

domestic product (GDP) stagnated at 9 percent in 1960 and 1965 (World Bank, 1980). According to Rasiah (1993), employment on average grew at only 3.6 percent annually in the period 1961-1972. The unemployment rate has risen from 6.0 percent in 1962 to 6.5 percent in 1965 and 8.0 percent in 1970. Ethnic group inequality, too, had increased in this period. The ratio of Chinese to Malay median incomes rose from 1.99:1 in 1957/58 to 2.20:1 in 1967/1968 (Jomo and Ishak, 1986).

This worsening economic situation coupled with frustration, especially among the Malays led to the bloody tragedy of 13 May 1969. This tragedy was a catalyst for the creation of the new ideology '*Rukun Negara*' (Article of Faith of the State). In January 1970, the National Consultative Council (NCC) was formed to establish positive and practical guidelines for inter-racial cooperation and social integration for the growth of a Malaysian National Identity (Andaya and Andaya, 1988). The tragedy also led to the establishment of the New Economic Policy (NEP: 1970-1990) aimed at narrowing the economic gap among the races and restructuring the involvement of different ethnic groups in various economic sectors. The introduction of NEP was then substantially increased the economic strength of Malays. Since then, multiculturalism issues become a significant influence throughout government's policy and plan. The study also covers, among others, economic, social and political background in the colonial period, influence of sub-cultures on business CSR in Malaysia and government policies and programmes towards CSR development.

Despite the extensive empirical studies on CSR, this study differs from the previous researches because it focuses on various financial services sector in Malaysia. Financial sector was chosen in this study because it is basically the organisation that offers

financial services to other entrepreneurial sectors. In particular, financial sectors are the sectors that inject capitals and shares to other business companies. Therefore, financial institutions emphasising on issues related to social responsibility are likely to inject capitals and shares in projects and businesses that conduct activities containing social responsibility elements. Indirectly, financial sector will bring value to other sector as well as to increase the probability to promote CSR.

This study also provides views from the managers in the issues related to CSR and Islamic values. These views are important because the Islamic financial services in Malaysia form a part of the most crucial financial system in the development of financial industry. Therefore, by eliciting the perception of the respondents from more diverse financial sectors, this study could indirectly view the implications of Islamic CSR in the operation of financial institutions more clearly.

1.6 RESEARCH METHODOLOGY

The study utilises two types of research methodology, namely, descriptive analysis and empirical survey. A descriptive method primarily used to gather information pertaining to the historical background of Malaysia. It is also used to generate review on the impact of sub-cultures towards CSR practice in Malaysia. An in depth review on CSR development in Malaysia in relation to government policies, CSR standards, current issues, previous studies, etc. will be taken into account to answer the research questions. Special emphasis is given to analyse the harmonisation of CSR standards in Malaysia with the international Western framework. All evidences are derived largely from library-based documentation. Other than that, electronic sources such as online databases, web sites and the internet sources are also being referred in order to gather relevant information for the research.

The second methodology – questionnaire survey – explores the understanding of financial managers in Malaysia towards current practices of CSR. The survey also seeks to investigate their opinions, stances and perceptions towards harmonisation of CSR in Malaysia. To provide answers to the above-mentioned question, a questionnaire is designed and distributed randomly to top and executive managers in financial services sector in Malaysia. There are at least two primary reasons for selecting top and executive managers in financial services sector in Malaysia as sample for this study. First, the samples have some input into the formulation of the company’s CSR practices, in most cases performing a review function, and it is perceived that this might have exposed them to the issue of CSR at some stage. Second, the samples could be expected to have a broad perspective on their organization’s operations and may thus be viewed as being able to address questions investigating perceptions of CSR.

1.7 ORGANISATION OF CHAPTERS

The report of this study comprises of seven chapters as described below:

Chapter 1: Introduction

The first chapter describes the introduction of the study. It also highlights the background of the research, research questions and objectives as well as the justification of conducting the research.

Chapter 2: Malaysia: Political, Economic and Social Background

Following the introductory chapter, the second chapter presents a detail discussion on political, economical and social background of Malaysia. The discussion is divided into two major parts, namely, the colonial and post colonial era.

Chapter 3: Corporate Social Responsibility: Philosophical and Theoretical Background

This chapter reviews CSR literature. This review sheds light on the philosophical and theoretical background of CSR in Western countries. It also analyses the fundamental basis of the CSR idea and its limitations. The explanations on various theoretical models of Western CSR are also presented. The last part of the chapter gives attention to previous studies on perceptions of CSR particularly in Asia.

Chapter 4: Corporate Social Responsibility: The Malaysian Context

The chapter begins with a discussion on the impact of sub-cultures on business environment in Malaysia. It also provides an overview of the current framework of CSR practices in Malaysia, regulations and policies towards CSR development. A detail discussion on the relationship between Islamic business ethics and CSR development in Malaysia is also included in this chapter.

Chapter 5: Research Design and Methodology

This chapter outlines the research methodology. It includes research and questionnaire design, sample selection, pilot test and the administering of data collection.

Chapter 6: Findings and Analysis

This chapter presents the results of the study in an attempt to answer the research questions and research objectives. A detail descriptive statistics is carried out to offer a preliminary understanding of the characteristics of the respondents who are top and executive managers in financial services sector. Where appropriate, this chapter testing the hypothesis through different statistical tests that were developed in the research

framework and methodology chapter. This chapter explores the perceptions of top and executive managers in financial services sector in Malaysia towards various social responsibilities issues.

Chapter 7: Conclusions and Recommendations

This chapter summarises the findings and provides recommendations of the research. Further to this, the chapter will also design and propose a uniquely Malaysian CSR model in particular and SEA in general which complies with international standards and is capable of accommodating cultural values of diverse local populations. In addition, a brief discussion of the limitations of the research and suggestions for future research is also provided.

CHAPTER 2

MALAYSIA: POLITICAL, ECONOMIC AND SOCIAL BACKGROUND

2.1 INTRODUCTION

This chapter presents the beginning part of the literature review of the thesis. The chapter discusses the historical background of Malaysia, i.e. politics, economy and social environment of different ethnic groups, namely Malay, Chinese and Indian. A major focus is to explain and compare the political, economic and social situation in Malaysia before and after the British colonial era. It is also the aim of this chapter to describe the policy formulated towards the social and economic integration of different ethnic groups in Malaysia especially after the racial riot of 13th May 1969.

2.2 MALAYSIA: HISTORICAL BACKGROUND

Malaysia (formerly known as Malaya¹) is a federation of thirteen states and three federal territories – Kuala Lumpur and Putrajaya in Peninsula and Labuan in Sabah. Peninsula Malaysia, covering some 132 000 square kilometres, is separated from Sabah and Sarawak, Malaysia's Borneo States which cover some 200 000 square kilometres, by the South China Sea (Bakar et al., 1982). Malaysia can be viewed as a 'plural society'² in Furnival's sense of the term (Leete, 1996, Nah, 2003). Malaysia stems from the various ethnicity mixes with the three largest communities in it heterogeneous population – Malays, Chinese and Indians – representing a sample of Asia's three most popular

¹ The name Malaya (or Federation of Malaya) continued to be used until 1963 when Malaysia, comprising Malaya, Singapore, Sabah and Sarawak was created, but Singapore left Malaysia in 1965 (Cheah, 2002).

² Plural society is a society that comprises two or more elements or social orders which live side by side, yet without mingling in one political unit (Furnivall, 1944). Simpson (1995), suggested that pluralism is used to describe situations where different ethnic and racial groups are collated into a society govern by one administration. In addition, these societies are characterised by different cultural diversity and social cleavage that are manifested into ascriptive hierarchies of resource and status allocation based on ethnicity, race or tribe. According to Nah (2003), present-day Malaysian society is perhaps better characterised as 'a society with plural features'.

countries – Indonesia, China and India. Further interest in Malaysia’s plural society stems from the various ethnicity mixes of the people in the East Malaysia states of Sabah and Sarawak (Leete, 1996).

Malaysia is a multiethnic, multicultural developing country with a population of about 27.5 million people (Department of Statistics, 2010). Whilst many countries have ethnic minorities, Malaysia has a range of ethnic groups, some of which are large. Of the total population, the majority is made up of people regarded as being the indigenous peoples of the country, known in Malay as *bumiputera* (literally meaning ‘sons of the soil’). They comprise of 61.4 percent of the total; of this percentage, Malays comprise 50.4 percent and non-Malay *bumiputera* the remaining 11 percent. The *bumiputera* are followed by Chinese 23.7 percent, Indians 7.1 percent and others 7.8 percent. This is even more complex at some local levels (Bophal and Rowley, 2005). For example in East Malaysia, where the census indicates in the state of Sarawak as having 0.1 percent Ibans, 26.7 percent Chinese, 23 percent Malays and in the state of Sabah as having 18.4 percent Kadazan Dusun, 17.3 percent Bajau and 15.3 percent Malay. In terms of religion, about 60.4 percent of the population are Muslims, 19.2 percent Buddhists, 9.1 percent Christians, 6.3 percent Hindus and the remaining accounts for various minority faiths (Department of Statistics, 2002). As mentioned by Ibrahim (1999), whilst these main groups divided by religion, with the Malays, predominantly Muslims, the Chinese Buddhists or Christians and the Indians Hindus, importantly they are significant intra-community differences, both in term of economics and identity.

The linkage of race, religion and language in the formation of ethnic group identity of Malaysia became evident in its Constitution (Haque, 2003). According to the Malaysian constitution, a Malay is a person who is born locally, habitually speaks Malay language, follows Malay customs and believes in Islam (Hashim, 1976). The Chinese and Indian communities are supposed to consist of the descendents of immigrants from China and the Indian subcontinent (Hirschman, 1987) who migrated to Malaysia largely since the second half of the nineteenth century, have become an integral part of Malaysian society and contribute significantly to the country's development (Embong, 2001). Whilst the official language is *Bahasa Melayu* (Malay language), English, however, is widely used along with a variety of other languages and dialects (Bophal and Rowley, 2005), creating '...a potpourri of ethnic groups-linguistic groups...' (Ayodurai et al., 2002, p. 442). For instance, there are numerous Chinese dialects, notably from South China (Hakka, Teochew, Hokkien, Cantonese and Hailam) as well as Mandarin. Among the Indians, Tamil is the common, but numerous other regional languages from the sub-continent are also spoken (Andaya and Andaya, 1988).

The country of Malaysia, which is part of the Malay Archipelago in Southeast Asian region, is at the confluence of two dominant nations: China in the east and India in the west. Historically, cultural and religious exchange from the 'Spice Route' period has provided a rich culture in this part of Southeast Asia (Selvarajah and Meyer, 2006). The seafarers from India and China brought Hinduism, Buddhism, Taoism and Confucianism to the Malay world followed by Muslim traders from Arab, Persia and India who introduced Islam in the seventh century. In the fifteenth century, Malacca flourished as an international port for trade and commercial goods. Many accounts closely identify Malacca with the beginnings of the golden age of a great maritime Malay Islamic

civilisation, while others suggest that this growing centre had its origins as an aboriginal village (Couillard, 1984). Gullick (1963) pointed out that there are at least three significance characters of the Malacca Sultanate (A.D. 1400-1511) in the Malay world. First, it was the first great kingdom of the Malay Peninsula and it was also the last until Malaysia achieved its independence in August 1957. Second, the Malacca Sultanate was progenitor to the successor States of later and modern time. Not all the present royal houses of Malaysia claim descent from the Malacca rulers but the thrones which they occupy, i.e. the sultanate as a political institution, stems from Malacca. Last but not least, Gullick (1963) also noted that it was during the Malacca Sultanate that the Malays were converted to the religion of Islam. According to Abas (1986), Islam was introduced to this side of Malay Peninsula by Arab traders, grew in strength as it was adopted by the ruling and trading classes.

Nah (2003) and Selvarajah and Meyer (2006) stated that after the Portuguese conquest of Malacca in 1511, followed by Dutch in 1641 and the British in 1824, Western political and economic system were introduced. In addition, large groups of immigrants particularly from India and China brought in by British had dramatically transformed the social composition of Malay Peninsula (Nah, 2003). Prior to attaining independence from the British in 1957, Malaysia was occupied by the Japanese for more than three years during the World War II. Following independence, mass migration to Malaysia in the form of indenture labour and people seeking economic gain mainly from India and China, ceased (Selvarajah and Meyer, 2006).

With independence, the Malaysian society retained its separate ethnic culture and religious identity at the societal, political and economical levels. In an interview with Schermerhorn (1994), Abdullah, a specialist in intercultural management in Malaysia, contextualised Malaysia as a unique country in that although it is ‘multiracial, multiethnic, each ethnic group has been able to retain its fundamental beliefs and traditions’ (Schermerhorn, 1994). Chin (2002) explained that in a plural society like Malaysia, it is a responsibility of the leader to recognise the different cultural underpinnings of each community. She further argues that, whilst maintaining cultural distinctiveness, the common shared values of the Malays, Chinese and Indians are ‘collectivism, respect for elders, harmony, face and religious orientation’ (Schermerhorn, 1994). Tolerance, cultural empathy and respect for religious and social behaviour are some of the tenets that support the nation’s motto ‘Unity in Diversity’. Maintaining this national concept can be difficult and requires delicate balancing of government policies as was evident in the Black Friday incident of 13th May 1969, when racial riots broke out after the country’s third national election, mainly between Malays and Chinese communities. Additionally, Triandis (2004) highlighted that, in tight cultures such as Malaysia, there are rules that govern social behaviour so that ‘people do the right thing at the right time and can thus interact smoothly and with little interpersonal conflict’.

2.3 THE BRITISH COLONIAL PERIOD

2.3.1 Politics

Whereas Malaya had been exposed to both Portuguese and Dutch colonisers beginning in the sixteenth century, particularly in the state of Malacca, it was only during the 1800s that the Malay Peninsula was subjected to more systematic and extensive colonial rule,

this time as part of the British Empire.³ According to Hirschman (1987), in 1871, the first modern census in Malaya covers the Straits Settlements which was the only area under direct British administration. The Strait Settlements include Penang, Malacca and Singapore. Essentially, these three areas consisted of port cities with their hinterlands. As the British ‘forward movement’ extended the imperial mantle over the Malay states of the peninsula, census taking followed in its wake.

The basis of British administration in the Malay States was to be found in the Pangkor Treaty signed in by Malay Sultans in 1874 when the first state of Perak capitulated to Sir Andrew Clarke (cited in Gullick,1963):

“That the Sultan receive and provide a suitable residence for a British Officer, to be called Resident, who shall be accredited to His court, and whose advice must be ask and acted upon in all question other than those touching Malay religion and custom.”

Aziz and Shamsul (2004) argued that the Pangkor Treaty was the significant attempt of British to expand its colonialism in Malaya and gave them full authority to control Malaya, stipulating that the Sultans received and provide a suitable residence for a British officer, to be called Resident. According to Triantafillou (2004), a whole new mode of rule with new rationalities and techniques of government was to become dominant in Malaya with the arrival of British colonialism. With the exception of Islam religion and Malay *adat* (custom) issues, all political and administrative matters were transferred from

³ Malaya under the British power was constructed on four pillars (Harper, 1999). First pillar was administration reform. The main effort was the formation of new federation and centralised bureaucracy to oversee Malay States (Jesudason, 1989). Furthermore, new centralised department were also formed in finance, public works, lands and mines, agriculture and police. Second pillar was the introduction of a new rule of property for Malaya. A systematic land tenure system was set up by the British. Malay Reservation Act which allowed only Malays to own, lease and mortgage land was introduced. (Means, 1986; Haque, 2003). Third pillar was the creation of new centres of power. Colonial law was administered from new towns such as Kuala Lumpur, Telok Anson, Taiping and Ipoh. Fourth pillar was the improvement technological competence of government such as in the area of education, social, irrigation, transportation, city planning and agricultural research (Harper, 1999).

the Malay ruler to the authority of the colonial administration. Yet rather than erasing *kerajaan* (literally ‘the state of having a *raja* or sultan’), the British sought to elaborate a system whereby the status of the Malay elite would still be recognised. By a series of treaties and letters of permission signed with the respective Malay Sultans, British Residents were established in the state of Selangor, Perak, Negeri Sembilan and Pahang. Their task was to undertake the collection and distribution of all revenues and see to the general administration of the country (Triantafillou, 2004). According to these treaties, the Resident was to ‘advise’ the Malay sultan who was to remain in control of the government but in practice, the Resident, supported by a modern administration staffed by British district and departmental officials was effectively ruling with occasional advise from the sultan (Stevenson, 1975).

The official British position was that they were there to support and advise the Malays in governing their own land. While the Malays were seen as the original populace and hence the legitimate rulers of Malaya, they were regarded as insufficiently mature and qualified to govern by themselves. While there are good reasons to remain sceptical about this rhetoric, the British colonisers nonetheless open up at least three avenues for Malays with ambition to govern namely membership in the State Council and position as Malay magistrates or as *penghulu* (sub-district headman) (Gullick, 1992). In order to maintain their support for the British Residential system, the sultans were granted personal allowances and pensions and a seat in the State Councils, which were established in 1877 in Perak and Selangor and a few years later in Pahang and Negeri Sembilan.

In 1891, individual censuses of Selangor, Perak, Negeri Sembilan and Pahang were taken and then repeated as the unified census of the Federated Malay States in 1901. Separate censuses were also conducted in several of the Unfederated Malay States in 1911. Beginning in 1921, a single census for all British Malaya (Strait Settlements, Federated Malaya and Unfederated Malay States) was conducted – a practice continued in 1931 and 1947. On the eve of independence, in 1957, a census of the Federation of Malaya (excluding Singapore) was taken. Then in 1970 and 1980, Malaysia-wide censuses (Peninsula Malaysia, Sabah and Sarawak) were taken.

Lim (1985) and Triantafillou (2004) claimed that by providing the Malay elite with opportunities for an administrative career and a larger share of responsibility in the administration sector was meant to serve and maintain colonial government's interests rather than those of the Malays. Lim (1985) highlighted the underlying reason for the British grant of special status was to create an illusion that the Malays, despite having been colonised, were still the rightful owners of Malaya. In such a situation the British would assume a 'trusteeship' role to protect them from being over-run by non-Malays whom the colonial government were recruiting in large numbers to work the tin mines and rubber plantations owned by mainly the British capital (Lim, 1985). The Malays were 'protected' in their traditional mode of existence (fishing and farming) and in matters of governance, and this 'trusteeship' found expression in colonial agricultural, educational and government recruitment policies (Lim, 1995).

2.3.2 Economy

British colonial administration undoubtedly brought economic success to Malaya. The politic and economic stability under the British government attracted potential traders,

investors as well as labour to this country (Jesudason, 1989). Integrated into the world economy (Gomez and Jomo, 1999), the tin-mining industry and plantation were monopolised by the British/Europeans and to a lesser extent the Chinese entrepreneurs (Puthucheary, 1960). The global demand for tin and rubber had contributed to a strong demand for cheap labour from China and India. As a result, the increased number of Chinese and Indians migration initiated by British administration in Malaya had created an artificial occupational segregation on ethnic group lines; Malays in agriculture, Chinese in commerce and Indians in plantation (Haque, 2003). According to Jesudason (1989), in 1929, Malaya was producing one-third of the world's tin supply. About 67 percent of tin output controlled by European companies, while the remaining 33 percent produced by Chinese ethnic group (Gomez and Jomo, 1999). In rubber sector, Puthucheary (1960) indicated that by 1920, Malaya had become the dominant producer of rubber in the world. He added that, in 1953, over 63 percent of a total 5.5 million acres under agriculture sector had been used for rubber plantation. The ethnic group distribution of the estate, comprising 1.9 million acres, in 1953 was 83 percent European followed by 14 percent Chinese and 3 percent Indians, while Malays estate was seemingly non-existent (Jeudason, 1989).

According to Gullick (1963), there are three phases of economic development in Malaya after 1874. Up to 1900, tin-mining was the mainstay of a rapidly expanding economy and the capital employed in this industry was almost entirely Chinese. The main British economic contribution was the construction of roads and railways to link the mines with the seaports. Then from 1900 onwards, there was a massive investment of British and other overseas capital both in tin-mining and in rubber planting which soon become the largest Malayan industry. The period of headlong economic expansion based on foreign

capital and labour faltered in the 1920's and ended with the world slump of 1932. In the third period covering the 1930's, both current output and further expansion of the rubber and tin industries were restricted under international arrangements designed to keep world demand and supply in balance (Gullick, 1963).

In some degree, there were two economic systems operated side by side in Malaya. First, the agricultural economy of the Malay villages and second; the 'export economy' of the rubber, tin and other major industries (Gullick, 1963). However, the Malay were drawn into the export or cash economy in as much as they became accustomed to earn a money income with which to purchase some of their requirements and for this purpose sold their surplus rice, rubber, copra etc. as the case might be. To a remarkable extent the whole economy was geared to the production of agricultural and mineral raw materials for export and the import from abroad of foodstuffs and other consumer goods, building materials, machinery and other requirements of the major industries. This two-way system comprised major merchant firms, predominantly European at the seaports; wholesalers, predominantly Chinese located at the ports and large inland towns; and shopkeepers and local produce dealers, again mainly Chinese situated in villages. The same channels, in many cases the same firms worked in two directions, i.e. they imported and distributed food and goods from overseas and they collected up, graded, packed and exported the produce of the country. There was a formidable concentration of economic power in the higher echelons of the system. At village level, the smallholders or Malay farmers found themselves obliged to sell their produce to the copra or rubber dealer, the rice miller, in a word to the middleman who was in a strong bargaining position – the stronger if, as was common enough, the Malay bought goods on credit to tide them over until the harvest or just to meet some special expense (Gullick, 1963).

Jesudason (1989) observed that the Malay role in the economic activities was very minimal, kept to their traditional agriculture activities such as rice cultivation, fishing, small cottage industries and coconut growing. The concentration of the Malay in traditional agriculture and poor presentation in tin-mining industry and manufacturing was seen because of the financial incapability. Unlike their Europeans and Chinese counterpart, Jesudason (1989) further claimed that Malays lacked of institutions that could mobilised capital and pool economic resources effectively. Unfortunately, British colonial policies were also not helpful in supporting financial network among Malays community. Colonial administration was very concerned that Malays remain in rice cultivation but never made any effort to improve rice production (Jesudason, 1989).

2.3.3 Social

The Malaysian peninsula has historically been a major crossroad of Asia (Hirschman, 1987). The strait between Sumatra and the peninsula was a sea-lane for traffic between China and India. As both long-distance and intraregional commerce developed, costal ports and towns grew to service and profit from the trade (Reid, 1980). There was also evidence of extensive contact with India and China that lasted more than a thousand years (Lamb, 1964, Purcell, 1967). Also, according to Andaya and Andaya (1988), historians have recorded the extensive population movements throughout the maritime world of Southeast Asia. The ease of migration throughout the archipelago and the lack of boundaries facilitated the exchange of people within Southeast Asia (Hirschman, 1987).

The advent of British power in 1824 marked a spectacular change of demographic and social structure in Malaya. The expansion of trade, especially the industrial revolution took hold in the West, stimulated a quantum leap in economic activity and labour migration. Two large groups of immigrants from China and India swarmed in Malaya to supply cheap labour for emerging industrial sectors. Wong (1960), Jackson (1968) and Khoo (1972) argued that the high demand for tin was the initial factor but subsequent commerce forays in agriculture also required larger amount of cheap labour for the growing export sector. Between 1880 and 1957, Malaya's population multiplied fivefold from less than a million and a half to 7.75 millions (Gullick, 1963). One of the major reasons of this extraordinary increase in growth of population at that phase was due to the large-scale immigration of Chinese and Indians ethnic groups as temporary labour (Sandhu, cited in Gullick, 1987). This flow was checked by unemployment and restricted during the slump of the early 1930's and was never resumed again on the same scale.

In 1800, the Malay ethnic group had made up 90 percent of the population of Malaya and in 1880 still two-thirds. By 1911, when the first census covering all Malaya was held, there were 51 percent only. In 1957, the Malay proportion had fallen to 43 percent and was outnumbered by the Chinese ethnic group (44 percent) alone. It must also be emphasised that in certain localities – the seaports and large towns, and the tin-fields of western Malaya – the Chinese were already the most numerous community (Gullick, 1963). The Chinese immigrants and later the Indians came to work as labourers on mines and plantations in forms of economic and social organisation which kept them apart from the Malays. Those who settled in Malaya often become shopkeepers and produce dealers trading with and living among Malays but even in these cases of maximum contact

differences of religion, language and culture kept them apart and there was little intermarriage or co-operation between them (Jesudason, 1989).

Among the Chinese, the inducement to settle in Malaya was primarily economic. They immigrated as labourers intending to return to China with their savings but their flairs for business led some of them to invest their cash in small retail business, mining or property. Their children would naturally follow in their footsteps with the result that the majority of adult Malaya-born Chinese are traders or shopkeepers and not labourers or agriculturalists and they are proportionately more numerous in town (Vlieland, 1932). Unlike the rural Malays, the Chinese had become an urban group since it was the Chinese-dominated mining areas that new towns were developing. For example, in 1891, Chinese population in Kuala Lumpur accounted for 79 percent of the total population (43 783) (Andaya and Andaya, 1988). On the other hand, the Indian immigrants were slower to settle and the inducement was of a different kind. There were of course some among them who settled as men of property like their Chinese counterparts but the majority continued as plantation labourers on a Malayan estate (Andaya and Andaya, 1988).

Historically, Indians came to Malaya by two means, the indentured and the *kangani* systems. Through indentured system, the organisation of migrants in India was in the hands of private recruiting firms in Madras or Nagapatnam. For Indians, the poor working condition on many Malayan plantations, the prevalence of disease and the distance from home made Malaya far less attractive than either Burma or Ceylon. The indentured system was maintained in principle until 1910 but it did not succeed in attracting sufficient workers to satisfy the demand. Drawing from the Ceylon experience, coffee planters initiated a free labour system by which the *kangani* (overseer) became the

recruiter. The *kangani* signed up men from his own village in India and was paid a commission for each labourer. This personal association was more popular and as a result, the Indian labour force was increased. Malaya's access to the continuing supply of cheap labour provided by Indian migration ensured the later success of the rubber industry.

2.4 POST COLONIAL PERIOD: PROMOTING ECONOMIC AND SOCIAL INTEGRATION

2.4.1 The End of British Era

According to Cheah (2002), the post-World War II period (1941-1945) was largely seen as an advent of positive development of nationalism in colonial territories in Southeast Asia. This scenario leads to an organised quest for independence, freedom and modernisation. He claims that a resurgent Malay nationalism was born during this period. It was manifested in the United Malays National Organisation (UMNO) which successfully campaigned against the British government's post-war Malayan Union proposal. The original White Paper proposals were (Hawkins,1948):

- (1) the creation of Malayan Union which would comprise the nine Malay States and the British settlements of Penang and Malacca,
- (2) the establishment of a form of common citizenship to include all, irrespective of race, who regard Malaya as their true home and the object of their loyalty,
- (3) the separation for a time of Singapore Island.

Under these proposals, the British had intended to end Malay sovereignty, impose direct rule in Malaya and create an equal citizenship for both Malays and non-Malays. If this plan had been fully implemented (the Malayan Union was only in force for two years), Malaya would have become more of a 'Malayan' nation-state than a Malay nation-state (Cheah, 2002). However, strong opposition to the proposals particularly from the Malay intellectuals were raised arguing that as the *bumiputera* (natives of the land), they deserve to have a 'special position' (Nah, 2003). As a result Malayan Union marked the birth of Malay politics when it withdrew the plan in the face of the strong Malay opposition, the British government restored Malay sovereignty and Malay proprietorship of the country and thereby ensured Malay political primacy among the various races (Leete, 1996). Responding to the strong reaction against the Malayan Union proposal, a working committee was appointed with representatives from the British government, Malay Rulers and the representative of the UMNO (Hawkins, 1948; Nah 2003).

In 1948, British officials together with the UMNO nationalists and Malay Rulers worked out the legal framework for a modern administration, citizenship, the future basis for the construction of nationhood and a brief, final and meaningful pattern of collaboration and partnership. All three parties had agreed to create a Federation of Malaya comprising the nine Malay states together with the settlement of Malacca and Penang to replace the Malayan Union under a centralised form of government. In order to end colonial rule and achieve national independence for Malaya, the UMNO nationalists were compelled by the British officials to work out a formula of inter-racial co-operation, unity and harmony among the various races in the country (Cheah, 2002). In 1955 and again in 1956 they negotiated and achieved a 'Social Contract' with the two major non-Malay political parties, the Malayan Chinese Association (MCA) and the Malayan Indian Congress

(MIC), on the basis principles for co-operating, partnership and administration of the future nation-state. The UMNO-MCA-MIC coalition won the country's first general election in 1955.

As part of the pre-independence negotiations with the British, the Chinese and Indians had been granted full citizenship and were thereby enfranchised. This was much of the dismay of many Malays, not just to those in the Unfederated Malay States, who were concerned about the potential loss of political power given the delicately balanced ethnic group composition of Peninsula Malaysia in the late 1950s. When the Reid Commission was established in 1956 to make recommendations concerning a Constitution for the soon-to-be independent Malaya, they expressly charged to include provisions for 'the safeguarding of the special position of the Malays and the legitimate interests of other communities' (Malaya Constitutional Commission, 1957, p.1). The constitution of the federation asserted the special rights of the Malays and of Islam as the official religion. Malaya's 1957 Constitution states the provision for 'the special position of the Malays', Malay as 'the national language' and Islam as 'the religion of the Federation' (Sheridan, 1961). In 1957, as they had done in 1948, the sovereignty of the Malay Rulers and the individuality of each of their respective states were reaffirmed. The Rulers were also given considerable powers as constitutional monarchs to 'safeguard the special position of the Malays' and reserve quotas in the civil service, licenses, and educational scholarships to Malays (Federation of Malaya Constitution).

On the other hand, the non-Malay nationalists in the MCA and the MIC could secure citizenship rights for those non-Malays born in Malaya or who qualified on residential and other terms. They failed in their demands for Chinese and Tamil to be accepted as

official languages on par with Malay and English. But they secure guarantees that ‘no person shall be prohibited or prevented from using (otherwise than for official purposes), or from teaching and learning, any other language’, and that ‘other religions may be practised in peace and harmony in any part of the Federation’ (Federation of Malaya Constitution). In 1957, after independence talks had been concluded, the British government handed over power to the UMNO-MCA-MIC coalition government. Independence Malaya (*Malaya Merdeka*) eventually materialised on 31 August 1957. It formed the basis for the future enlarged federation of present-day Malaysia. At independence, the Federation of Malaya become a parliamentary democracy modelled along the line of the British system, with regular election for the federal and state governments.

2.4.2 Post-Independence Socio-Economic Development

By the late 1950s, Malaysia had achieved a reasonable measure of economic development (Leete, 1996). Rao (1980) argued that at the time of the independence in 1957, Malaysia enjoyed one of the highest standards of living in Asia. In that year, the primary sector (agriculture, forestry and mining) accounted for 45 percent of gross domestic product (GDP), the secondary sector (manufacturing and construction) for 11 percent and the tertiary sector (services) for 44 percent (Gomez and Jomo, 1999). Mainly because of the export earnings from tin and rubber, the average annual GDP growth rate in Peninsula Malaysia during 1957-1970 was 6.4 percent (Khor, 1983). According to Leete (1996), economic development activities in Malaysia after 1957 were concentrated on the production of rubber and tin for export, on the output of a variety of food crops and small-scale manufactures for domestic consumption and on *entrepot* trade and commercial and financial services for the domestic market. At the same time, Malaysia

had become the world's largest producer of tin and had the second largest output of natural rubber. Foreign labour and foreign capital were important contributory factors in these remarkable achievements (International Bank for Reconstruction and Development, 1956).

Gomez and Jomo (1999) claimed that despite fairly steady and relatively high economic growth for over a decade after independence, income inequalities increased and poverty remained widespread. The Malays remained largely in the rural sector, engaged in subsistence economy and were economically backward and in low-income activities, while other major communities; the Chinese and Indians were involved in the more thriving activities of the business, plantation and mining sectors with higher income jobs (Cheah, 2002). Lim (1973) has also noted that the spread effects from the export sector were negligible, with development concentrated in urban, rubber plantation and tin-mining areas, largely ignoring other rural areas. Therefore, much political debates and government policies in the decade following independence emphasized on improving the Malays' economic livelihood (Leete, 1996; Cheah, 2002). Special efforts were made to help the Malays through the provision of social and physical infrastructure. Between 1957 and 1970, according to one estimate, the lowest 20 percent of households registered an average fall in real income of around 30 percent. Among the predominantly Malay rural households, the decline (40 percent) was sharper compared to the mainly Chinese urban households (15 percent) (Pang, 1983).

Despite the government's efforts to promote *bumiputera* capitalism, Malay ownership of assets in the corporate sector had not increased appreciably (Gomez and Jomo, 1999). By 1970, *bumiputera* ownership of shares in all major sectors of the economy was still

insignificant (see table 2.1). Although Chinese ownership of the economy amounted to 22.5 percent, foreign control was almost three times more at 60.7 percent. Even with the inclusion of shares owned by government agencies in trust on their behalf, *bumiputera* ownership stood at a meagre of 2.4 percent. Malays remained disproportionately poor and were largely to be found outside the modern, urban and corporate sectors, with very few entrepreneurs or corporate managers among them (Gomez and Jomo, 1999). Table 2.2 clearly shows that in 1970, Malays continue to be concentrated in low-productivity agriculture and the public sector. Instead of fostering social stability, economic development seemed to be exacerbating social inequalities and frustrating growing Malay aspirations. Extremists in the various ethnic communities argued that the ethnically based ruling political parties professing to represent ethnic group interests were too accommodating of others in the Alliance to represent their interest effectively. This exacerbated popular dissatisfaction with the ruling Alliance coalition, resulting in its worst electoral performance ever in the 1969 general elections (Gomez and Jomo, 1999).

Table 2.1:
Ownership of Share Capital of Limited Companies by Ethnicity and Industry, 1970
(in percentages)

Sector	Malay	Chinese	Indian	Foreign
Agriculture, Forestry & Fisheries	0.9	22.4	0.1	75.3
Mining & Quarrying	0.7	16.8	0.4	72.4
Manufacturing	2.5	22.0	0.7	59.6
Construction	2.2	52.8	0.8	24.1
Transport & Communications	13.3	43.4	2.3	12.0
Commerce	0.8	30.4	0.7	63.5
Banking & Insurance	3.3	24.3	0.6	52.2
Others	2.3	37.8	2.3	31.4
	1.9	22.5	1.0	60.7

Source: Low, K. Y. (1985). The Political Economy of Restructuring in Malaysia: A Study of State Policies with References to Multinational Corporation.

Table 2.2:
Ethnic Group Composition of Occupation by Industry, 1970 (in percentages)

Sector	Malay	Chinese	Indian
Agriculture, Forestry & Fishing	68	21	10
Mining	25	66	8
Manufacturing	29	65	5
Construction	22	72	6
Utilities	48	18	33
Transport & Communications	43	40	17
Commerce	24	65	11
Services	49	36	14

Source: Snodgrass, D. K. (1980). Inequality and Economic Development in Malaysia.

2.4.3 The Racial Riot of 13th May 1969

One of the most dramatic events in the modern history of Malaysia was the incident following the elections of 1969 (Nagata, 1980). On 13 May 1969, racial rioting erupted in Kuala Lumpur with a ferocity and attendant loss of life unparalleled in the modern history of Malaysia (Bass, 1970). The tragedy which sparked the conflagration had been set in motion three days earlier as Malaysians went to the polls in the country's third general election. The ruling Alliance Party – comprised of the UMNO, MCA and MIC – although maintaining its dominant political position, suffered unexpected reverses (Bass, 1970). Nagata (1980) claimed that for the first time since independence in 1957, the effectiveness of the Alliance Party 'grand coalition' formula was threatened, jeopardising the fragile peace between the Malay, Chinese and Indian ethnic groups. Although it still held the majority of seats in the parliament, the number had dropped from 89 seats in 1964 to 66 seats and its popular vote had declined from 58.4 percent in 1964 to 48.5 percent (Andaya and Andaya, 1988). The opposition parties – Gerakan Rakyat Malaysia (GERAKAN, or Malaysian People's Movement), Democratic Action Party (DAP) and People's Progressive Party (PPP) – together won a total of 25 seats and Parti Islam SeMalaysia (PAS, or Pan-Malaysian Islamic Party) 12 seats, thus depriving the Alliance government of the two-third majority which had previously enabled it to obtain constitutional amendments with ease (Bass, 1970; Andaya and Andaya, 1988). Two states, Kelantan and Penang nevertheless fell to the opposition, while the Alliance Party barely secured majorities in the state of Selangor, Perak and Terengganu. In sum, the Alliance Party gained the support of only about half of the Malay electorate and a third of the non-Malay vote (Gomez and Jomo, 1996).

Andaya and Andaya (1988) claimed that the general elections of 1969 were fought on the highly emotional issues of education and language, which masked a deeper concern regarding the role of each ethnic community in the new Malaysian nation. Even before 1969, the government's language and educational policies were a focus of discontent among non-Malay groups who regarded them as an attempt to secure the school as one more area for Malay special privileges. In the Barnes Report of 1951, the Razak Report of 1956 and the Rahman Talib Report of 1960, the Alliance government expressed its intention of having a uniform and nationalised education system. The Alliance government attempted to achieve this without provoking hostility from the various ethnic groups.

The Chinese in particular were fearful of total submersion by the Malays and felt that yet another aspect of their culture was being sacrificed at the altar of national unity. Many Chinese began to despair of the MCA's ability to ensure the preservation of Chinese interests, despite its membership in the coalition. Among the Chinese and Indians communities, the MCA and MIC were increasingly seen as ineffectual (Andaya and Andaya, 1988). According to Roff (1967), dissatisfaction also mounted among Malays, some of whom felt that too many concessions and loopholes were left in 1967 when Malay language became sole official language. Also, Malay economic demands were growing and were not easily satisfied as compared to Malay cultural demands (Enloe, 1968). Gomez and Jomo (1996) indicated that several developments in the economy had probably contributed to the riot. Despite steady growth, diversification and low inflation, unemployment had been growing and ethnic tensions grew as inequalities were increasingly perceived in ethnic terms and attributed to the 'ethnic other' – the ubiquitous urban Chinese businessman or the Malay dominated civil service. Therefore, each ethnic

group saw the elections as a means of preserving its interest against the encroachment of others. These underlying tensions contributed to the ethnic riot on 13 May 1969 in Kuala Lumpur resulting in the proclamation of a state of emergency under Article 150 of the constitution.

After the bloody tragedy of 13 May, the government took immediate action by creating a Department of National Unity in July 1969 to formulate a national ideology and new social and economic programmes. The formulation of the ideology was headed by Tan Sri Ghazalie Shafie, the Permanent Secretary, Ministry of Foreign Affairs and a member of the National Operation Council (NOC) (Milne, 1970). According to Tan Sri Ghazalie Shafie (Strait Times, 1969, cited in Milne, 1970) the tragedy of 13 May 1969 had jolted the nation into a serious and thoughtful mood.

“We ask ourselves: What went wrong? What are the ingredients of national survival, national unity, national progress... What shall we do to see to it that racial sensitivity will never again be trampled upon; that the country’s activities will promote national unity; that the various limited loyalties will be fused into one, a higher loyalty towards Malaysia?”

On 31 August 1970, during the Malaysia’s Independence Day celebration, the new ideology, *Rukun Negara* (Principles of Faith of the State) was officially announced:

“Our nation, Malaysia, being dedicated to achieving greater unity off all her peoples; to maintaining a democratic way of life; to creating a just society in which the wealth of the nation shall be equitably shared; to ensuring a liberal approach to her rich and diverse cultural traditions; to building a progressive society which shall be oriented to modern science and technology:

We, her people, pledge our united efforts to attain those ends guided by these principles:

Believe in God

Loyalty to King and Country

Upholding the Constitution

Rule of Law

Good Behaviour and Morality”

In January 1970, the National Consultative Council (NCC) was formed to establish positive and practical guidelines for inter-racial co-operation and social integration for the growth of a Malaysia national identity. In light of that, a body representing all segments of society might be able to achieve a true mutual consensus (*muafakat*) (Mauzy and Milne, 1978) practised in a general assembly. It was hoped that through *muafakat* (mutual agreement), a frank discussion of such issues as the New Economic Policy, the *Rukun Negara*, the National Language and Malay special privileges might go some way towards resolving the explosive problems within Malaysia's society (Andaya and Andaya, 1988). In conclusion, Milne (1970) indicated that in accepting Malaysia as a multiracial society with conflicting cultural and economic values, all policies and programmes must be formulated so as to blunt the edges of conflicts among the different groups.

2.4.4 New Economic Policy (NEP)

The New Economic Policy (NEP), declared by the government in response to the ethnic riots in May 1969, provided a framework to increasing economic disparities among different races in Malaysia (Nah, 2003). The NEP programme placed great emphasis on measures designed to create the socioeconomic conditions for national unity and nation-building through: (1) eradicating poverty, raising income levels and increasing

employment opportunities for all Malaysians, irrespective of race by means of programmes aimed at rising productivity and providing a broad range of social services, particularly for low-income groups; and (2) restructuring society to correct economic imbalance, so as to reduce and eventually eliminate the identification of race with economic function (Malaysia, 1991) especially between the Malays *bumiputeras* (mainly in Peninsula Malaysia) and non-*bumiputeras* (mainly Chinese and Indians Malaysians) (Jomo, 1990).

In the early 1970s, the First Outline Perspective Plan (OPP) for 1971-1990 was announced for implementing the NEP. Essentially redistributive in intent, the government expected to achieve the goals of the NEP on the basis of sustained economic growth (Gomez and Jomo, 1999). NEP encouraged Malay urbanisation and greater Malay business participation through employment and ownership quotas and created educational opportunities for the Malays to study in local and international universities (Leete, 1996). The objective of NEP is to ensure that Malays and other indigenous people became full partners in all aspects of the economic life of the nation.

The attention given to eradicating poverty ensured minimal political opposition as well as legitimacy and broad support for the NEP. From the outset, however, the keenest interest in implementing the NEP was clearly on restructuring wealth, particularly on creating Malay business community and increasing Malay share ownership in corporate sector from around 3 percent in 1971 to 30 percent over a 20-year period. This involved a massive government effort to bring the Malays into the modern urban economy. Cheah (2002) believed that economic integration of the Malays could not be achieved if economic roles were determined by race. Therefore, to meet the objectives, the

government increased state intervention and public sector expenditure and sought to ensure continued economic growth based on export-oriented industrialisation (Gomez and Jomo, 1999). They claimed that this strategy seemed to respond to the problems of poverty, unemployment and inter-ethnic economic imbalances that had emerged before May 1969. On the basis of several socio-economic studies, the progress of the NEP in the areas of economic and social integration can be chartered as part of the thread of national integration and national-building (Cheah, 2002).

A Study done by Milton Esman (1987) showed that the NEP spawned an increasingly confident Malay bourgeoisie with middle-class incomes and a modern life style, plus a small group of politicians, members of the royal families and retired civil servants which had accumulated considerable economic assets, in large measure due to their connection with the government. Another study done by Benny in 1986 on the restructuring of Malaysian banks indicates that *bumiputera* individuals, government and *bumiputera* trust agencies were already holding 75 percent of share ownership in commercial banks, 68.4 percent in merchant banks and 49.9 percent in finance companies. The share of non-*bumiputera* Malaysians was 16.6 percent, 8.5 percent, and 47.2 percent in commercial banks, merchant banks and financial companies respectively, while the share of foreigners was 8.4 percent, 23.1 percent and 12.9 percent respectively.

A 1991 study by Salleh and Osman Rani also identified the unprecedented expansion of the public sector in the first two decades of the NEP as the cornerstone of the racial redistribution strategy. The share of *bumiputera* individuals and trust agencies climbed from 2.4 percent of the total RM5.6 billion in 1970 to 12.5 percent of RM32.4 billion in 1980 and 17.8 percent of RM76.1 billion in 1985. They noted that the increase in the

share of *bumiputera* ownership was largely at the expense of foreign ownership which declined in importance from 63.3 percent in 1970 to 25.5 percent in 1985. Meanwhile, the Malaysian non-*bumiputera* share increased from 34.3 percent in 1970 to 56.7 percent in 1985.

In brief, these findings revealed that although the NEP had improved the livelihood of the Malays through large-scale employment in the public sector and had been provided with financial assistance in the business and agricultural sectors, it had not disadvantaged the non-Malays except causes them some unhappiness. According to Embong (2001), since the Malay dominated state has generally been market-friendly and actively promoted market growth even while implementing the NEP's programmes, over the longer term NEP policies have not diminished the capitalist and middle class among other Malaysians, least of all among the Chinese. In fact, Cheah (2002) noted that the economic power of the Chinese was still untouched and their dominance were still evident in industries, properties, banking and insurance. The NEP would first cut into the foreign equities of the economic cake.

2.5 THE ISLAMIC RESURGENCE ERA

The connection between the state and Islam that was assigned to the Sultans (Malay Rulers) under British colonial was continued after independence in 1957, particularly after the creation of the Malaysia Federation in 1963 (Houben, 2003). Houben (2003) claimed that this statute was maintained to certify racial harmony on one hand and uphold the privilege position of the majority Malay Muslim population on the other. Article 3 (1) of the Constitution of Malaysia states that Islam is the religion of the Federation, but other religions may be practiced in peace and harmony in other part of the

Federation (Fernando, 2006). According to Aziz and Shamsul (2004), the advent of British colonial rule in Malaysia introduced a separation between the religion and the state (government). The Islamic component of pre-colonial government (Malacca Sultanate) has been systematically traditionalised and perceived as a non-rational system (Aziz and Shamsul, 2004). As a result, religion (Islam) is separated from matters such as administration, politics, law, economics, education, finance and so forth (Aziz and Shamsul, 2004).

It was believed that Islamic resurgence movement in Malaysia began to make its mark in the aftermath of the 1969 racial riot (Thirkell-White, 2006). Sundaram and Cheek (1988) discovered three stages of Islamic resurgence era in Malaysia; (1) in the early 1970s, (2) in the late 1970s, and (3) in the 1980s. According to Thirkell-White (2006), the early contour of Islamic resurgence in Malaysia was brought through the combination of contact made by Muslim Malays on *Haj* (the religious pilgrimage to Mecca) as well as the influence from overseas Malay students. While overseas, a number of Malay students had come into contact and influenced by Islamic teachings of thinkers such as Sayyid Qutb and Mawdudi (Sundaram and Cheek, 1988; Camroux, 1996; Thirkell-White, 2006). Additionally, rapid rural-urban migration and social mobility in the context of expanding urban opportunities for the traditionally rural Malay population also provided significant contribution to the Islamic resurgence in early 1970s (Thirkell-White, 2006).

In the late 1970s (the second stage), a tacit alliance between *Angkatan Belia Islam Malaysia* (ABIM or Malaysian Islamic Youth Movement) and the main Islamic opposition party, PAS, gave the resurgence a political momentum (Camroux, 1996). Whilst, ABIM was keen to press an Islamic position in public policy debates, PAS was

seen as a political party that promotes a holistic conception of Islam as *ad-Deen* (a way of life) (Camroux, 1996). As a result of government response to the Islamic resurgence during 1970s, a few institutions were set up such as Islamic Research Institute (1971), National *Dakwah* Foundation (1974) and National Fatwa Council (1978). These institutions were established essentially to coop and monitor Islamic discourse in Malaysia (Thirkell-White, 2006).

In the 1980s, Islamic resurgence was countenanced by the Malaysian government through it owns Islamisation programme (Camroux, 1996). Islamic issues had become increasingly important to UMNO partly because of changing public sentiment and partly because of the resurgence had influenced UMNO politician themselves (Thirkell-White, 2006). It also argued that the government commitment to Islamisation process both on the domestic and international level was due to the politically motivated action against Islamic critics especially from PAS (Hamayotsu, 2002). It was when Mahathir was elected as the Prime Minister; UMNO began to adopt a coherent response to the resurgence. On an ideological level, Mahathir was keen to promote a vision of a progressive and modern Malaysian Islam by attempting to accommodate Islamic elements into broader political agenda. He stressed that Islam's greatness can be re-established if Muslims regain their lead in technology, skill and military expertise. Furthermore, his ostensibly Islamic values of thrift, hard work, discipline, piety and loyalty are precisely those values required to bring Malaysia to the status of a fully industrialised country (Tiek, 1995 cited in Camroux, 1996)

The Mahathir government's commitment towards the Islamic resurgence had already taken series of initiatives such as installing the teaching of Islam, financing Islamic school and building the first Islamic teachers college (Camroux, 1996). The tertiary Islamic education also expended where Islamic faculties in local universities were enlarged (Aziz and Shamsul, 2004). The government's Islamisation efforts were continued by initiating the setting up of various kinds of Islamic institutions (Shamsul, 1997). Founded in July 1983, Malaysian first Islamic bank, Bank Islam has been at the forefront of this process. The main objective is to provide an alternative banking system which operates freely from interest and in line with *shariah* (Islamic) law. In the same year, the International Islamic University was founded with the objective to integrate knowledge and Islamic values and morality. Later, the *takaful* or Islamic insurance companies began to emerge as an alternative to the existing conventional insurance companies (Aziz and Shamsul, 2004).

The escalating Islamisation in the economic industry had brought to the establishment of the *Institute Kefahaman Islam Malaysia* (IKIM or Malaysian Institute of Islamic Understanding) in 1992. The institute through regular seminars and conferences attempts to promote an indigenised, modern form of Islam appropriate for a dynamic industrialising nation (Camroux, 1996). Its most important research and education activity is in the area of Islamic economics and promoting the values underlying the Vision 2020 programme (Ghazali, 1993). Shamsul (1997) pointed out that Islamisation programme in Malaysia, not only limited in promoting Islam into the mainstream national economy and increasing religious awareness among the Malay Muslim middle class but also profiled Malaysia among the Islamic countries as an economically successful and politically stable multicultural Islamic nation that should be emulated by

the rest in the Islamic world. To the non-Muslim countries, Malaysia was perceived as the type of Islamic country that they prefer to be friend and conduct trade with – religious but modern and moderate (Aziz and Shamsul, 2004).

2.6 CONCLUSION

It is argued that the theatrics of multiracial countries often cast racial attitudes, values and beliefs as heroic traits (Rabushka, 1971). Racial riots, declarations of emergencies, suspension of parliamentary practice and other drastic measures occurred chronically in this plural society. Despite a hesitant start, on the account of political and economic uncertainties, Malaysia has emerged as a relatively unified, politically stable and dynamic nation. However, the separate historical development of the society still has important and interrelated influences. Embong (2001) claimed that Malaysian multiracial society, without doubt has a source of tension and conflict in the country. Gomez and Jomo (1999) further argued that British colonialism had contributed to the ethnically heterogeneous population by allowing, even encouraging Chinese and Indians immigrants to work in Malaya, resulting in a close identification between race and economic function.

In the pre-independence era, Malaysia's economy was overwhelmingly dependent on agriculture and international trade upon the export of rubber and tin. The Malays and other *bumiputera* groups were concentrated in farming and fishing, the Indians in plantations, while the Chinese, who dominated trade and commerce in towns, were also prominent in tin-mining and commercial agriculture. In the main, the different ethnic communities were economically and residentially segregated. On the other hand, in the post-independence era, particularly after the bloody tragedy of 13 May 1969, the

structure of the society and employment patterns has become much less differentiated as a result of government (the Alliance Party) policies, particularly the distributive policies of the NEP. Leete (1996) and Hefner (2001) claimed that states policies through the Malay political power have been used to redress inequitable distribution of economic/wealth across ethnic groups. As a result, this has helped to mute ethno-economic tension in the Malaysian middle class especially between Chinese and Malays as well as to promote social integration and stability.

CHAPTER 3

CORPORATE SOCIAL RESPONSIBILITY: PHILOSOPHICAL AND THEORETICAL BACKGROUND

3.1 INTRODUCTION

This chapter discusses the concept of corporate social responsibility (CSR), its definition and the main theories underlying its concept. A focus is also given to clarify the key features of the various different theories and viewpoints relating to the development and roles CSR in society. It is also the objective of this chapter to look into reasons, why companies are engaging in CSR initiatives and what are the driving forces behind them. The final part of the chapter reviews previous studies related to CSR and culture.

3.2 DEFINITION AND CONCEPT OF CSR

The concept of CSR has become a mainstream issue among business communities in recent years. A key part of that agenda is to address the fundamental idea that corporations have obligation to work for social betterment (Frederick, 1994). Historically, a formal publication on CSR was introduced in the 1950s. Most of the early writings can be seen in the developed countries especially in the United State and Europe where a sizable body of literature accumulated (Hamid et al, 2007). According to Murphy (1978), the period up to the 1950s was the philanthropic era in which corporations donated to charities more than anything else (Carroll, 2008). At that time, CSR was often referred to more as social responsibility. The indication of the modern phase of CSR literature is marked with the publication of the book entitled ‘*Social Responsibilities of the Businessman*’ by Howard R. Bowen in 1953. He set an initial definition of social responsibilities of business as: “*It refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in*

terms of the objectives and values of our society". Bowen (1953) believed that social responsibility is an important element in guiding business communities to future success. In the decade of the 60s, CSR concepts and definitions started to grow more formal, more accurate and more extensive (Carroll, 1999; Falck and Heblich, 2007). Scholars such as Keith Davies (1960), William C. Frederick (1960) and Clarence C. Walton (1967) contributed early fundamental definitions of CSR and undertook further development of social responsibility models and concepts. For example, Walton (1967, p. 18) defines social responsibility as:

"In short, the new concept of social responsibility recognises the intimacy of the relationships between the corporation and society and realises that such relationships must be kept in mind by top managers as the corporation and the related groups pursue their respective goals."

In the 1970s, two significant terms were introduced; (i) corporate social responsiveness and, (ii) corporate social performance. The former emphasised on the proactive approach required from corporations and was used to link CSR with strategic management; the latter proposed a managerial framework as an attempt to measure CSR (Valor, 2005). In the 1980s, the prominent concept of stakeholder theory was inspired. Although the word 'stakeholder' was introduced in 1963 (Mele, 2008) at the Stanford Research Institute, it was Freeman's landmark book (1984) that triggered the thinking around stakeholder (Valor, 2005). Since then, CSR is constantly evolving to incorporate different approaches depending on circumstances and needs. Boatright (1993) argued that CSR started to figure prominently in public debate in the wake of increasing social problems such as poverty, unemployment, race, gender and religious discrimination and environmental pollution. Other issues on CSR are promoting human rights, community involvement, human resource management, socially responsible investing and social reporting (CSR-

Europe, 2001). In the past decade, Europe has become captivated with CSR and there is considerable evidence in formal writing, publication, research and seminars. More recently, developing countries particularly in the Asia-Pacific region has shown significant interest and attention to CSR practices (Carroll, 2008). In recent time, evolving global business norms have bring together activists, media, communities and non-governmental organisations such as the World Resources Institute (WRI), Global Reporting Initiative (GRI) and International Standard Organisation (ISO 14000), an initiatives towards improving and implementing corporate social involvement of the worlds' business community (Godfrey and Hatch, 2007).

The basic idea of CSR is that corporations should take into account activities beyond profit making which include protecting the environment, caring for employees, being ethical in trading, and getting involved in the community. However, defining CSR is difficult as it brings different understanding to different type of people (Dusuki, 2005). In fact, this scenario leads to a variety of definitions of CSR adopted by different groups specific to their own interests and without a single consensus agreement (McWilliams et al., 2006; Shahin and Zairi, 2007). Carroll (1999), for instance, pointed out that over 25 different conceptual definitions of CSR within published academic papers. One of the mainstream definitions which incorporated in the Commission of the European Communities and the Financial Times Top 100 Index is:

“CSR is corporations being held accountable by explicit or inferred social contract with internal and external stakeholders, obeying the laws and regulations of government and operating in an ethical manner which exceeds statutory requirements.” (Bowd et al., 2003, p. 19)

In a more comprehensive approach, Carroll (1979, 1991) attempted to integrate previous conceptualisations by introducing a four element of CSR; economic, legal, ethical and philanthropic. She believed that corporations not only have the economic responsibility of being profitable and the legal responsibility to follows laws and regulations that guide their ability to achieve economic objectives, but they also have ethical and philanthropic responsibilities that encompass social norms and standards (Carroll, 2000; Shahin and Zairi, 2007). Carroll (1979, 1991), proposed a famous definition of CSR, suggesting that corporations are bounded with four elements of responsibilities known as ‘The Pyramid of Corporate Social Responsibilities (CSR)’. Each of these four elements is discussed below.

(1) Economic responsibilities

Economic responsibilities designed to fulfil societal needs and wants by producing products and services to them. As a basic economic entity in the society, the existence of business is motivated by the maximisation of profit and increasing shareholder value. It is to be expected that corporation has to build and maintain strategic planning and under pressure to keep its production cost as low as possible, so that it can sustain strategic advantages over its rivalry. Economic responsibilities of corporations further create employment opportunities, generate investment, develop and transfer new research and technology and produce safe products and services (Nelson, 2003).

(2) Legal responsibilities.

Legal responsibilities’ of business corporations embrace the expectation of the society to pursue their objectives within the framework of the law (Dusuki, 2005).

It is important to note that corporations are bound with various federal, state and local rules and regulations. For example, companies are not allowed to engage in any activities related to hazardous and piracy products. It is also important for corporations to comply with other legal responsibilities such as employee welfare, consumer protections laws, pollution control and tax payment.

(3) Ethical responsibilities

Ethical responsibilities refer to the ethical responsiveness of the business corporations as expected by the society. Societal members include shareholders, employees, suppliers, competitors, local community and environment. It is important for the business corporations to recognise what is right and what is wrong so that they can provide fairness and justice to the societal members. Ethical norms often vary across different society. Therefore, corporations need to set up formal codes of conduct or ethical standards as a guideline and reference to the organisational members. Generally, ethical responsibilities are those policies and practices that go beyond compliance with rules and regulations.

(4) Philanthropic responsibilities

Philanthropic responsibilities refer to the common desire to see business contribution in response to society's expectation. Although the absence of philanthropic activities is not deemed as unethical, any voluntary programmes conducted by business community such as promoting art and cultural activities, supporting charity activities and education will contribute to the improvement of life. In developing countries, philanthropic activities tend to get a higher priority

as CSR manifestation (Arora and Puranik, 2004; Ahmad, 2006; Amaeshi et al., 2006).

Carroll's Pyramid of CSR is one of the most quoted definitions in the literature (Dusuki, 2005). As a conceptual model, this four-element model provides extensive help for business organisations in understanding CSR philosophy and offers a useful construct for beginners to engage in CSR activities. The model might also be used as an initial framework to help analyse and evaluate the degree of business involvement in social responsibility programmes particularly in developing countries.

3.3 THEORETICAL STUDIES ON CSR

Gray et al. (1995) argued that over the last three decades, there has been a steady rise and richness of CSR practices by business community. In fact, these practices have been steadily increasing in both volume and complexity (Deegan and Gordon, 1996). When explaining why and how business should make particular practices on CSR, reference is often made to a particular theoretical perspective. However, by acknowledging the fact that there is no "accepted" theory for CSR, there is much variation in the theoretical perspectives being adopted (Choi, 1999). The traditional perception towards the responsibility of business corporation was introduced by Milton Friedman (1962, 1970), the Nobel prize-winning economist. He argued that:

"The business of business is to maximise profits, to earn a good return on capital invested and to be a good corporate citizenship obeying the law – no more and no less. To go further in a deliberate fashion is to exceed the mandate of business. It is to make what amounts to an ideological stand with someone else's money and possibly to engage in activities with which many stakeholders would not agree."

Notably, from Friedman's point of view, business entities in a capitalist economic system are only obliged to maximise shareholders' values and companies' profits. Business activities are bound only by legal guidelines – the economic rules (Falck and Heblich, 2007). In addition, by pursuing non-economic commitment may hurt shareholders by generating low profit, hence such commitment should not be undertaken (Blowfield and Frynas, 2005). Friedman (1970) further argued that business corporation has no specific moral or social responsibility and any engagement in social and environmental activities should be done as private individuals' commitment at their own cost. This argument leads to a proposition that there is no requirement for CSR in business community in Friedman's approach. Other scholar such as Theodore Levitt also shared the same position like Friedman. Levitt (1983) suggested that the function of business corporations is to maximise profit through vigorous competition in any way consistent with the survival of business in the economic system, while the government is responsible for the general welfare (Klonoski, 1991).

Friedman's argument on CSR has been the subject of much study and empirical research since his 1970 article. Many scholars have tried to reconcile economic goal of the corporation (profit-maximisation) with non-economic goal (social and environmental objectives) by proposing that CSR can lead into superior long-term profitability. For instance, Margolis and Walsh (2003) had conducted a research between 1972 and 2002 on 127 published empirical studies examined the relationship between CSR involvement and firm financial performance. Surprisingly, they discovered that majority of the studies showed a positive link between the two variables (see for examples, Joyner and Payne, 2002; Fussler, 2004). Holy Grail (cited in Kurtz, 2008) also made the same point:

“Absolute, definitive proof that responsible companies perform better financially... I’m here to announce the search is over. The evidence is in. And even the statisticians are saying it’s conclusive. Social and environmental responsibilities does go hand in hand with superior financial performance.”

Discussion on the existence, rights and connection of business institution to the society has led to the birth of diverse CSR debates and theories. These theories were based on the underlying assumption about the structure and ontological nature of the business corporation (Klonoski, 1991). In his research, Hamid (2004) highlighted three main theories that frequently employed by most researchers in understanding the notion of CSR and business entity. These theories will be discussed in detail in the following sub-section.

3.3.1 Stakeholder Theory

Stakeholder theory recognises the need to be responsive to the demands on members of the public who will be affected by (i.e. have a “stake” in) the corporation’s actions. Freeman (1984) defined stakeholders as:

“Any group or individual who can affect or is affected by the achievement of the firm’s objectives.”

Generally the proponent of this view posit that paying attention to the interests, needs and rights of multiple stakeholders of a business is a useful way to inculcating social responsibility behaviour among corporations. In defining the objective of business corporation, Ansoff (1965) was believed to be the first in introducing the term ‘stakeholder theory’ (Roberts, 1992). According to Jones (1999), stakeholders can be classified into primary and secondary group. Primary stakeholders consist of those

groups with direct and well established legal claims on organisational resources. Secondary stakeholders comprise of those groups whose claim on organisational resources are less well established in law and/or are based on non-binding criteria such as community loyalty and ethical obligation.

The stakeholder concept is intended to broaden management's vision of its roles and responsibilities beyond the profit maximisation functions to include interests and claims of non-stockholding groups (Mitchell *et al.*, 1997). Under this concept, anyone who might affect the business objective and anyone who might be affected by its realisation is considered a stakeholder. Stakeholder theory holds that corporate executives develop, implement and evaluate strategies in order to manage their relationships with the stakeholders whom are most important for the corporation's success.

Freeman (1983) discussed the dynamics of stakeholder influences on business decisions making. He divided the stakeholder concept into two parts; (i) corporate planning and business policy model, and (ii) CSR model of stakeholder management. He explained that corporate planning and business policy model of the stakeholder concept is responsible in developing corporate strategic decision by groups whose support is required for the corporation to continue its success (Roberts, 1992). Stakeholder groups under this model consist of customers, suppliers, owners and public groups and are not adversarial in nature. On the other hand, CSR model of stakeholder management involves external influences of the corporation that may assume adversarial positions (Roberts, 1992). This model is considered effective particularly in channelling information for corporate planning division to adapt to changes in the business and social environment.

Freeman (1983) further argued that the increasing power of stakeholder groups will lead to the increase in meeting their needs.

Based on Freeman's CSR model of stakeholder management, Ullmann (1985) revealed that stakeholder theory provides an appropriate justification for incorporating strategic decision making into studies of CSR activities. However, balancing stakeholders' interests could be quite challenging as a different stakeholder group have different needs and demands (Mele, 2008). In dealing with this situation, Carson (1993) drew the following statement:

“Business executives have positive duties to promote the interests of all stakeholders (These are prima facie duties). But the duties to some stakeholders are more important than the duties to other stakeholders. Thus, sometimes lesser interests of more important stakeholders take precedence over the greater interests of less important stakeholders. Positive duties to stakeholders are constrained by negatives duties not to lie or break the law, etc.”

In addition, the Clarkson Centre for Business Ethics (1999) designs seven Principles of Stakeholder Management to ensure this theory can be practically implemented. These principles promote guidelines for the corporation to respect the rights and interests of all stakeholders:

1. Managers should acknowledge and actively monitor the concerns of all legitimate stakeholders and should take their interest appropriately into account in decision-making and operations.

2. Managers should listen to and openly communicate with stakeholders about their respective concerns and contributions and about the risks that they assume because of their involvement with the corporation.
3. Managers should adopt processes and modes of behaviour that are sensitive to the concerns and capabilities of each stakeholder constituency.
4. Managers should recognise the interdependence of efforts and rewards among stakeholders and should attempt to achieve a fair distribution of the benefits and burdens of corporate activity among them, taking into account their respective risks and vulnerabilities.
5. Managers should work cooperatively with other entities, both public and private to ensure that risks and harms arising from corporate activities are minimised and where they cannot be avoided, appropriately compensated.
6. Managers should avoid altogether activities that might jeopardise inalienable human rights or give rise to risks which if clearly understood, would be patently unacceptable to relevant stakeholders.
7. Managers should acknowledge the potential conflicts between (a) their own role as corporate stakeholders, and (b) their legal and moral responsibilities for the interest of all stakeholders and should address such conflicts through open communication, appropriate reporting and incentive systems and where necessary, third party review.

Mele (2008) asserts that stakeholder theory could maximise the value of shareholder as it takes into account all stakeholder rights and interests and is not only restricted to the manager-stakeholder relation as required by law. Through stakeholder theory, corporate managers will have greater responsibilities beyond management fiduciary duties to the

shareholders (Mele, 2008). The formulation of this theory is said to have more respectful of human dignity and rights. Handy (2002, p. 52) expressed the following:

“A good business is a community with purpose, and a community is not something to be ‘owned’. A community has members, and those members have rights including the right to vote or express their views on major issues.”

Blair (1995) and Clarkson (1995) collaboratively claimed that stakeholder theory superseded the conceptual elusiveness of CSR. Under this doctrine, corporate managers are responsible to set a specific task to specific groups of people affected by business activities. This approach, which if implemented by many corporations can often bring to business success in the long run (Collins and Porras, 1994).

A general criticism of the notion of stakeholder theory is that it cannot sufficiently provide corporation with specific objective function since the balancing of stakeholder interests abandons an objective basis for evaluating business actions (Jensen, 2000; Sundaram and Inkpen, 2004; Mele, 2008). However, according to Mele (2008), this is not a strong objection because stakeholder theory is not against shareholders. Furthermore, Freeman et al. (2004) asserted that (a) the goal of creating stakeholders value is decidedly pro-shareholders, (b) creating value for stakeholders create appropriate incentives for managers to assume entrepreneurial risks, (c) having one objective function will make governance and management difficult, if not impossible, (d) it is easier to make stakeholders out of shareholders rather than vice versa, and (e) in the event of breach of contract of trust, shareholders compared with stakeholders, have protection through mechanism such as the market price per share.

Another weakness is that stakeholder theory is held responsible for creating an excuse for managerial opportunism (Jensen, 2000; Marcoux, 2000; Sternberg, 2000). Sternberg (2000) claimed that stakeholder theory ‘effectively destroys business accountability’ because according to him, any corporation that attempts to satisfy all stakeholders is actually cannot be accountable to anyone. He further argued that this theory gives corporate management ability to justify self-serving behaviour by appealing to the interests of those stakeholders who benefit (Mele, 2008). Phillips et al. (2003) challenged this opinion of opponents by stating that managerial opportunism is a problem, but it is not more a problem for stakeholder theory than the alternatives. The capability of managers to permit self-serving behaviour does not mean that the justification is a persuasive (Mele, 2008).

A final concern according to Marcoux (2000) came from the argument that stakeholder theory seems more likely to focus on the distribution of final outputs. Yet, this argument has been refuted by Phillips et al. (2003). He replied that “*stakeholder theory is concerned with who has input in decision-making as well as with who benefits from the outcomes of such decision. Procedure is as important to stakeholder theory as the final distribution*” (Phillips et al., 2003, p. 478).

To sum up, stakeholder theory suggests that business corporations are motivated to broaden their objectives to include other goals in addition to profit maximisation (Pirsch et al., 2007). Many companies engage in CSR activities as a way to promote socially responsible actions and respond to stakeholder demands (Maignan and Farrell, 2000). Although stakeholder theory has certain weaknesses, but, it is still remain as a powerful instrument in the field of CRS and is correlated with a firm’s survival, economic well-

being, competitive advantage and customer's loyalty (Mitchell, 1997). In addition, stakeholder theory has been applied into numerous analytical and empirical analyses of the corporations around the world (Roberts, 1992).

3.3.2 Agency Theory

Agency theory deals with "situations in which one person, 'the principal', wants to induce another, 'the agent', to perform some task that it is in the principal's interest, but not necessarily the agent's" (Heath and Norman, 2004, p. 252). In the business environment, agency theory shows the relationship between the shareholders who act as the principals and the managers of the companies who act as agents (Fama and Jensen, 1983). Management makes decisions in the running of the company as they have access to information that may not be available to the shareholders.

Quoted in Lee and Tan (2002) studies, agency theory relates back to what Ross (1973) called the "principal's problems." In such a situation, both the principal and agent are opportunistic utility maximisers. Therefore there is no *a priori* reason to believe that the agent will always act in the principal's best interests. In other words, agency theory assumes that agents are not perfectly honest; hence this gives rise to the principal's problem. The agency problem gives rise to the need of driving an agent to behave in a manner that is consistent with maximising the principal's welfare. To be able to monitor the activity and performance of the agents, the principal needs financial information. The agent is likely to present all information to allow the capital market to function optimally (Hendriksen and Breda, 1992). This is because they have interests in ensuring that share prices do not fall. Otherwise the agent is able to perform activities that protect its interest instead of the principal's interest (Tan, 1997).

Jensen and Meckling (1976) advocated Ross (1973) by describing agency relationship, as a contract under which one party (the principal) engages another party (the agent) to perform some services on the principal's behalf. Under the contract, the principal delegates some decision-making authority to the agent. This would however, triggers the agent's self-interests (e.g., in job protection or career advancement) to influence their management decisions. Besides that, Fama and Jensen (1983) examined on the selection of the appropriate organisational form and its implications for organisational performance and survival. Their studies drew much attention in the early 1980s, led on to further development on the agency theory. Concerned about the separation between "ownership" and "control", the agency theory literature developed numerous propositions with regard to what extent corporations could benefit from delegating decision control to directors (or agents, acting on behalf of shareholders) and still ensuring that the organisation would produce the results that the owners desire.

In general, it is presumed that the agent has more information of the corporation activities than the principal. Unfortunately, the agents sometimes exercises discretion to maximise their own utility rather than the principal (Salazar and Husted, 2008). Therefore, in order to ensure the agent complies with the principal objectives, Heath and Norman (2004) claimed that the owner of the firm has two options, either through moral persuasion or through the provision of incentives. The costs associated with motivating the agent to act on behalf of the principal are referred to as agency cost. This agency costs include among others, monitoring costs, bonding costs and residual loss from dysfunctional decision (Haron, Ismail and Yahya, 2007).

In the case of CSR involvement, the main argument is surrounded on the situation where a corporate manager (agent) spends someone else's money (principal) for a social interest. Friedman (1970) asserted that it is unethical for the corporate managers to engage in CSR activities because the agent violates his or her duty to act on behalf of the interest of the principal. He further argues:

“The great virtue of private competitive enterprise [is that] it forces people to be responsible for their own actions and makes it difficult for them to exploit other people for either selfish or unselfish purposes. They can do good – but only at their own expenses.” (Friedman, 1970, p. 257)

Friedman's critique on CSR has been subject of much empirical research (Salazar and Husted, 2008). By using agency theory, those studies seek to find out the relationship between CSR activities and financial performance. For instance, a study carried out by Navarro (1988) found evidence that charitable contribution of the firm acts as a kind of advertising expense and a kind of 'quasi-fringe benefit' for employees. Furthermore, the results support the idea that CSR activities are consistent with principals' interests and profit maximising. In the case of incentive and financial motivation to the agent, although it will decrease company's expected profits, Salazar and Husted (2008) believed that it can improve company's image and reputation. A motivated group of managers will allow the firm to boost its competitive performance and indirectly creates value to shareholders.

3.3.3 Legitimacy Theory

Legitimacy theory is derived from the concept of organisational legitimacy, which has been defined as:

“A condition or status which exists when an entity’s value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity’s legitimacy.”

(Dowling and Pfeffer, 1975, p. 122)

Legitimacy theory recognises the fact that there are many alternative uses for the resources that an organisation has. Legitimacy theory posits organisations are continually seeking to ensure that they operate with the bounds and norms of their respective societies (Deegan, 2000). Suchman (1995) argued that legitimacy management depends strongly on communication. Therefore, any business corporation planning to involve legitimacy theory needs to examine some form of corporate communication. Legitimacy theory is based upon the notion that business corporation operates in society via a social contract where it agrees to perform various socially desired actions in return for approval of its objectives, other rewards and its ultimate survival. In other words, society plays a role in evaluating the usefulness and legitimacy of a corporation’s activities (Haron, Ismail and Yahya, 2007).

Tinker and Nelmark (1987) claimed that although financial performance was previously perceived to be the best measurement of an organisation’s legitimacy, community now expects business corporations to make provision from their profits to spend on the environmental issues, employees’ welfare, consumers’ safety and to the community where businesses are operating. The notion of this theory implies that if the business

corporation does not appear to operate within the bound of consideration to the public which is considered appropriate by society, then society may act to remove the corporation's rights to continue operations (Haron, Ismail and Yahya, 2007). Another purpose of CSR under legitimacy doctrine is to co-opt, neutralise or win over problematic actors in the political environment and to preserve corporate autonomy by establishing private initiatives as an alternative to the interference of government. Therefore, corporations may practise philanthropy to gain power and legitimacy.

Lindblom (1993) and Dowling & Pfeffer (1975) suggested four broad legitimacy strategies that organisations may adopt when faced with a threat to their legitimacy or a perceived legitimacy 'gap'. A legitimacy gap occurs when corporate performance does not match the expectations of 'relevant publics' or stakeholders (Laan, 2004). Those strategies are as follows:

1. Seek to educate its stakeholders about the organisation's intentions to improve that performance.
2. Seek to change the organisation's perceptions of the event (but without changing the organisation's actual performance).
3. Distract (manipulate) attention away from the issue of concern.
4. Seek to change external expectations about its performance.

Thus, legitimacy might be seen as a key reason for undertaking corporate social behaviour (Lindblom, 1993). Patten (1992) and Hackston and Milne (1996) stressed that in legitimacy theory, business corporation is advised to disclose social activities information as a means of establishing and protecting the legitimacy of the organisation

in that they may influence public opinion. For example, a study conducted by Patten (1992) on Exxon Valdez Company discovered a positive relationship between legitimacy of the company and disclosure of CSR activities. Other studies have also positively link CSR with organisational legitimacy (see for example, Deegan and Rankin, 1997; Brown and Deegan, 1999).

3.4 MOTIVATION FOR CSR ACTIVITIES

Today, business corporations are under growing pressure to embrace social responsibility activities because of several reasons such as (a) the emerging public standards for social performance (the United Nations Global Compact), (b) the proliferation of independent evaluations and rankings that make social performance more transparent (*Fortune's Most Admired Companies*), and (c) the scandals associated with big giant companies (Enron and Worldcom) (Pirsch et al., 2007). There could be a variety of motivations for corporations to voluntarily undertake CSR programmes. A review on literature has identified several motivations behind CSR practices among business corporations.

The existing literature indicated that many successful and profitable organisations spent significant amounts of money in fulfilling their social responsibilities (Doukakis et al., 2005). Kitchen and Schultz (2002), Joyner and Payne (2002) and Brammer and Millington (2005) argued that companies that adopt CSR programme often build positive corporate reputation and profitability. This proposition is supported by both theoretical and empirical research. For instance, study conducted by Arjoon (2000) and Marshall (2005) asserted that business corporations that adopt social responsibility – driven strategies generate greater profit potential than those companies that pursue solely on profit – driven strategy. Furthermore, by raising its reputation through being associated

with social responsibilities activities, business corporations can experience a greater competitive advantage (Doukakis et al., 2005).

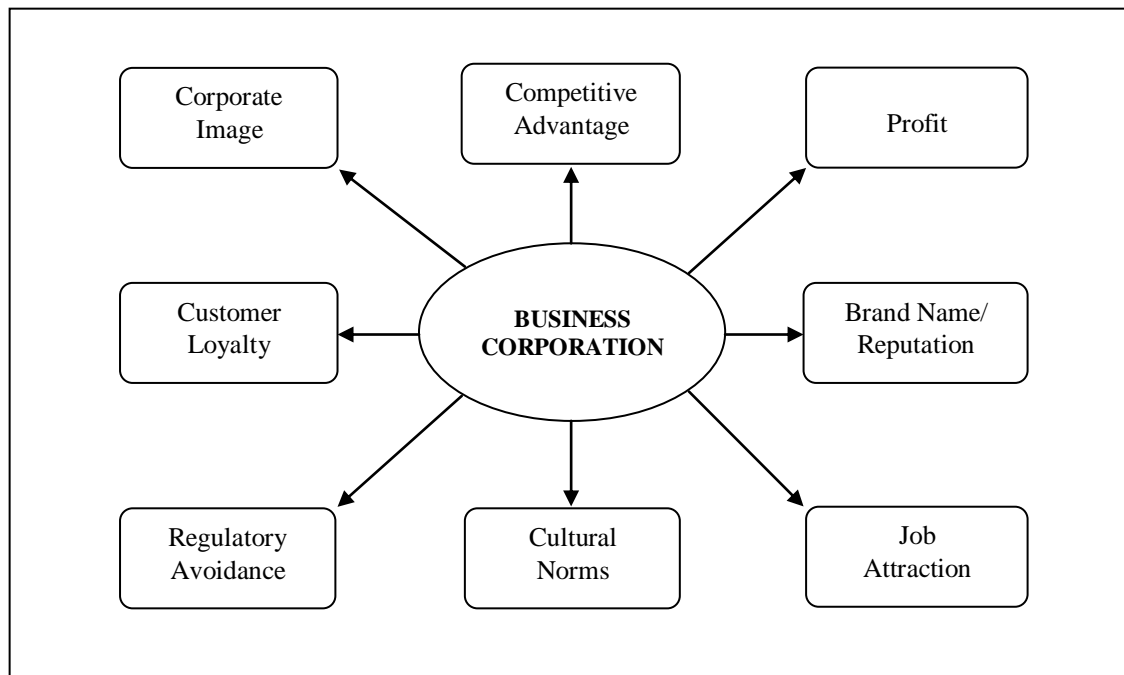
According to Acuff (2005) social responsibility effort can produce enrichment marketing, where well-being of consumers is enriched, leading to favourable goodwill towards the company. A number of studies indicated that CSR initiatives in various forms are positively related to customer loyalty and brand name (Kroll, 1996; Miller 2002). In his study, Mackiewicz (1993) found that nine out of ten consumers used CSR reputation of an organisation in order to decide which product and services they will consume. In some cases, consumers are willing to actively support socially responsible organisations and disperse positive information about these companies to others (Maignan, 2001; Berens et al., 2005; Davis, 2005).

Another motivation is that socially responsible organisations are capable to retain high quality employees and attract superior job applicants (Barnett and Vaicys, 2000; Backhaus et al., 2002). For example, empirical study done by Greening and Turban (2000) found that job applicant's perceptions of a firm's corporate social performance influenced their desire to work for the firm. Moreover, Aguilera et al. (2007) claimed that employees' perception of a firm's social policies will impact their willingness to participate in, contribute to and initiate social change initiatives. The study conducted by Ramus and Steger (2000) revealed that when employees perceive their organisation is committed to pursue environmental protection, they are more likely to generate ideas to improve company's environmental policies.

Culture has also been found to be an influential motivation for corporation to engage in social activities. Davis (1973) claimed that business is operating under a set of cultural constraints in the same way that any other person in society does. Therefore, any changes in society's culture and norms will change business behaviour. For example, in some developing countries, particularly in Asia, studies found that religious commitment exerts an impact on the attitude and behaviour of business entrepreneur to perform social responsibility practices (Nelson, 2004; Renato and Fiume, 2004; Dusuki, 2005; Muhamad and Muwazir, 2007).

Research also indicated that company engages in socially responsible behaviour to offset regulation by government (Moon and Vogel, 2008). From business point of view, new regulation is costly and restricts its flexibility in decision-making. Business corporations prefer to find solution to community problem by introducing their own policies, so that they can prevent government intervention and legislation. Understanding the broader context of CSR motivation can help business corporation works more effectively within and outside the firm. Undoubtedly, it will add value in the business strategy as well as to develop sustainable management practices. To summarise, Figure 3.1 below shows a broad motivations for business corporations to voluntarily undertake CSR programmes.

Figure 3.1
CSR Motivation



3.5 CSR STUDIES IN ASIAN DEVELOPING COUNTRIES

CSR increasingly receives attention from researchers, especially research pertaining to perception and response of CSR. However, most of these studies were conducted in the context of developed countries. It shows that the awareness about, and adoption of CSR agenda is less apparent in developing countries compared to the developed countries of the West (Sriramesh et al., 2007). To date, most of the CSR literature in developing countries focuses on Asian region, with a significant attention on China, India, Malaysia, Indonesia, Thailand and Pakistan. Chapple and Moon (2005) and Sriramesh et al. (2007) claimed that the way CSR is practiced and perceived in Asia is not homogeneous as it is shaped by different culture, religion, political and socio economic condition. Therefore, there will be a significant difference of CSR practices across different countries and regions (Bronn and Vrioni, 2001). As the notion of CSR in developing countries tends to be different from developed world, Visser (2006) offered a modified model of Carroll's

classic CSR pyramid. Theoretically, he suggested that in developing countries, philanthropic is given second highest priority after economic responsibilities, followed by legal and ethical responsibilities. A recent study by Ramasamy and Yeung (2010) revealed a significant direct relationship between religiosity and support for CSR activities among consumers. Visser (2008) pointed out four reasons for focusing on CSR studies in developing countries:

1. Developing countries represent the most rapidly expanding economies, and hence the most lucrative growth markets for business (IMF, 2006).
2. Developing countries are where the social and environmental crises are usually most acutely felt in the world (UNDP, 2006).
3. Developing countries are where globalisation, economic growth, investments and business activities are likely to have the most dramatic social and environmental impact – both positive and negative.
4. Developing countries present a distinctive set of CSR agenda challenges which are collectively quite different to those faced in the developed countries.

Chambers et al. (2003) argued that globalisation appears to be the most important drivers for CSR in developing countries. For example, companies that venture into international market have felt the pressure to improve their CSR standards to measure up their expectations of their global stakeholders to remain competitive (Khanna, 2004). Asia is a fast growing economic continent since the 1980s. According to World Bank (2008), developing countries in this region are expected to grow at a rate of 7.7 percent in 2008, compared with the global growth rate of 3.3 percent. From an investment perspective, it is argued that investors nowadays are more concerned with the ‘moral implications’ –

which encompass social, environment and religious substances - of their investment portfolio decisions as well as the return on investment. As a consequence, Asian market has shown a remarkable increase in social responsibility investment (SRI) growth (Laufer, 2003). Further, Cheung et al. (2010) claimed that in Asia, there have been numerous investment funds that have explicit policies to invest only in firms with good CSR performance.

Chambers et al. (2003) suggested that Asian firms often lag behind their Western counterparts in many aspect of CSR (Ang, 2000; Low, 2004; KPMG, 2005). A study conducted by Welford and Frost (2006) revealed that labour issues are generally considered the most important CSR concern in Asia. For example, study conducted by Welford (2004) found that Asian firms appeared to be doing less than European companies in regards with certain policies such as fair wages, freedom of association and equal opportunity for employees. In another study, Welford (2005) found that Asian firms place philanthropic policies the least prevalent compared to European and North American firms.

Wong et al. (2009) conducted a study to assess perceptive differences in CSR among business students. The result showed that Indian students placed more emphasis on philanthropic responsibilities, while Chinese respondents concentrated on economic responsibilities. Ramasamy and Ting (2004) found that employees in Malaysia tended to have low level of CSR awareness – generally lower that that found in Singapore. However, Rashid and Ibrahim (2002) argued that the low level of CSR awareness in Malaysia may improve as there is evidence of increase positive attitude towards CSR from senior-level managers. Another study by Chapple and Moon (2005) contended that

different countries in Asia focuses on different CSR initiatives. Countries such as Malaysia, Thailand and India emphasise more on community involvement, while South Korea involves in production process.

CSR practice has had a low start in Asia. Even academic research into CSR in developing countries is still limited and underdeveloped (Visser, 2008). Not many studies have been conducted to test and develop a viable CSR framework in this part of the world where social responsibility initiative is uniquely associated with various cultures, religion and traditional norms. Nonetheless, studies have shown growing trend in CSR performance by business corporations in recent years especially due to the advent of globalisation and economic liberalism. A study conducted by Cheung et al. (2010) between the periods of 2001 to 2004 revealed that Asian firms are aware of the importance of CSR and are gradually improving their performance in this area. This trend is expected to continue in the future.

3.6 PREVIOUS STUDIES ON PERCEPTION OF CSR

There is an extensive volume of academic literature pertaining to CSR. Some of the literature attempted to examine the perception and awareness of various stakeholders towards firms CSR commitments from several points of view. This section discusses results from a number of relevant article contributions pertaining to perception of CSR that have been published in recent times.

Engle (2007) conducted a study in America to examine the perceptions of 56 senior international business executives regarding the importance of CSR involvement by multinational corporations in the improvement of human rights, poverty, education,

health care and environment of the host countries. The results of the study revealed that all five areas are considered as important with the environmental responsibility ranked the most important element of these five areas. Lamsa et al. (2008) surveyed 217 business students in Finland in order to find out their attitudes towards various CSR concepts and shareholder model versus stakeholder model. The results showed that, respondents value the stakeholder model of the company more than the shareholder model. However, the attitudes differed according to gender: female students are more in favor of the stakeholder model and placed more weight on corporate ethical, environmental, and societal responsibilities than their male counterparts.

Wang (2009) attempted to examine the effects of consumers' perceptions of ethical, discretionary and relational practices (CSR dimensions) on their attitudes toward mobile phone companies. The results revealed that even though each dimension of CSR practices contributes to attitude towards mobile phone companies, ethical and relational practices are considered more important dimensions of CSR practices for forming positive attitude toward mobile phone companies. Study by Arli and Lasmono (2010) attempted to examine the perception of consumers in Indonesia toward CSR. The study showed that consumers in Indonesia are unaware and unsupportive towards CSR. This is the opposite finding of consumer perceptions in developed countries, where most consumers are willing to support products and services by socially responsible companies. The results suggested that CSR is still a concept waiting to be applied in the developing country. On the other hand, Ramasamy and Yeung (2010) tried to find out CSR understanding from the Chinese consumers based in Shanghai and Hong Kong. The results demonstrated that Chinese consumers are more supportive of CSR as applied in developed country. The study revealed that based on Carroll's pyramid of CSR, Chinese consumers ranked

economic responsibilities as most important while philanthropic responsibilities are of least importance. The nature of these differences is important for firms intending to use CSR for strategic purpose in China.

Duarte, F. (2010) carried out an exploratory study to explore the perceptions of five CSR managers in relation to the influence of their personal values on their work. The study highlighted, in particular, the role of personal values in the practices of CSR. The results clearly indicated that personal values of managers did play a role in the development and maintenance of CSR cultures. Lai, (2011) asked 130 Taiwanese banking customers in an attempt to explore their reaction to CSR initiatives. This study seeks to investigate whether Taiwanese retail banking customers prefer CSR initiatives that favour themselves or other stakeholder groups (community, environment), and whether these initiatives impact customer attitude and intentions. The study found that Taiwanese banking customers rank customer-centric initiatives first, followed by the community and environmental.

In another study, Fieseler (2011) explored the perceptions and attitudes of equity analysts at the German stock exchange with regards to Carroll's CSR dimensions – economic, legal, ethical and discretionary. The findings suggested that responsibility issues are increasingly becoming part of mainstream investment analysis. However, in order to play a larger part in the future, investor relations personnel must frame responsibility strategies in a way that is more consistent with the financial community's perspective. The most recent research by Cohen (2011), involving a survey of 750 retail investors, to examine their perceptions about indicators of economic performance, corporate governance policies and performance, and CSR. Survey results indicated that retail

investors currently are most concerned with economic performance information, followed by governance, and then corporate social responsibility information. Economic performance indicators such as market share, customer satisfaction, and product innovation information were dominant in making decision. However, respondents expressed an increase interest in the use of nonfinancial information in the future. Table 3.1 provides a summary of the recent studies on perception of CSR.

Table 3.1
Recent Studies on Perception of CSR

Literature	Year	Respondent
Cohen, J., Holder-Webb, L., Nath, L. and Wood, D.	2011	Retail Investors
Fieseler, C.	2011	Equity Analysts
Green, T and Peloza, J.	2011	Consumers
Lai, C. H.	2011	Banking Customers
Aarli, D. and Lasmono, H. K.	2010	Consumers
Boddy, C. R., Ladyshewsky, R. K. and Galvin, P.	2010	Employees
Brueckner, M. and Mamun, M. A.	2010	Community
Collins, S. K.	2010	Health Care Managers
Duarte, F.	2010	Managers
Panwar, R., Han, X. and Hansen, E.	2010	Community
Ramasamy, B. and Yeung, M.	2010	Consumers
Shea, L. J.	2010	Consumers
Sheth, H. and Babiak, K. M.	2010	Professional Sport Executives
Wong, A., Long, F. and Elankumaran, S.	2010	Business Students
Ellis, A. D.	2009	Employees
Hine, J.	2009	Managers
MacLeo, M. R.	2009	Investors
Perez, R. C.	2009	Consumers
Wang, A.	2009	Consumers
Lamsa, A. M., Vehkaperä, M., Puttonen, T. and Pesonen, H. L.	2008	Business Students
Pfau, M. H. Sim, M. M. and Shelly S. J.	2008	Community
Rodrigo, P.	2008	Employees
Engle, R. L.	2007	Senior Executives
Muhamad, R and Muwazir, M. R.	2007	Muslim Investors
Peterson, R. T. and Jun, M.	2007	Entrepreneurs
Sriramesh, K., Ng, C. W., Ting, S. T. and Wanyin, L.	2007	Business executives

3.6.1 Cross-cultural Studies on CSR

To date, only few studies have attempted to compare CSR across culture. Most cross-cultural studies in the business field have either focused on ethics (Burton et al., 2000) or nationality. Cultural differences are often argued to have an impact on people's attitudes and perceptions towards CSR. A study by Orpen (1987) involved an assessment of managers' perceptions in United States and South Africa. 164 respondents from United States and 151 respondents from South Africa were asked about general statements, arguments for and against CSR as well as their perceptions towards corporate involvement in various social programmes. The results showed that United States managers are more favourably disposed towards CSR than their South African counterparts, more likely to agree with argument supporting CSR and less likely to agree with argument against CSR. On top of that, United States managers are more likely to feel pressure to engage in socially desirable activities.

Ibrahim and Angelidis (1993) investigated the similarities and differences exist between 425 top executives and 344 business students in the United State with regards to their attitudes toward CSR dimensions – economic, legal, ethical and discretionary. The results indicated that business students exhibit greater concern about the ethical and discretionary components of CSR compared to top executives. No significant difference is recorded between them with respect to legal dimension of CSR. Another study by Pinkston and Carroll (1994), which examined the differences in opinions among 131 natives of different countries working in United State chemical industry. The results showed that natives of England, France, Germany, Japan, Sweden, Switzerland and the United States did not report significant differences in CSR orientation across countries.

Non-significant results may have been due to the relatively small numbers of respondents per country.

Burton et al. (2000) asked 165 United State and 157 Hong Kong business students in an attempt to investigate their perceptions toward CSR. The results showed differences in the types of responsibility considered most important. Hong Kong students ranked economic responsibilities as the most important element of CSR and placed noneconomic responsibilities the least than did United States students. In 2001, Maignan conducted a survey on consumers in France, Germany and United States. The study was to investigate the respondents' readiness to support CSR organisations based on economic, legal, ethical and philanthropic elements. The results demonstrated that French and German consumers appear more willing to actively support responsible business than their United States counterparts. Consumers in United States highly valued economic responsibilities, while consumers in France and Germany are more concerned about legal and ethical dimension of the business. Table 3.2 provides a summary of previous studies on perception of CSR from cross-cultural context.

Table 3.2
Previous Studies on Perception of CSR from Cross-cultural Perspective

Literature	Year	Research Respondent	Country
Maignan	2001	Consumers	France, Germany & United State
Burton et al.	2000	Business Students	Hong Kong & United State
Pinkston and Carroll	1994	Natives of different countries in chemical industry	United State
Ibrahim and Angelidis	1993	Top Executive & Business Students	United State
Orpan	1987	Managers	South Africa & United State

A review on early research in respect to cross-cultural studies on CSR implies lack of interest among CSR scholars to explore the correlation and impact of CSR perception and culture. Furthermore, almost all studies were concentrated on developed countries in the West and overlooked conducting research in developing countries. As the idea of CSR in developing countries tends to be different from developed world in terms of culture, tradition and religion, this study aims to explore the perception of CSR among diverse ethnic group and religious background of the respondents in the financial sector.

3.7 CONCLUSION

This chapter provides understanding on philosophical and theoretical framework of CSR from Western perspectives. A detail discussion on various CSR theories adopted by business corporations in developed countries has been explained. In addition, arguments for and against each theory are presented along with implications for the implementation of CSR activities. Despite many attempts to justify CSR theories, a model developed by Carroll – economic, legal, ethical and philanthropic elements – seems to receive high

attention by CSR scholars to be tested in many countries. Interestingly, the overall findings suggested that different countries ranked CSR elements differently. This is because of different society, especially in developing countries, reacts differently to the idea of CSR (Orpan, 1987) depending on cultural influences. This chapter also outlines eight motivations that could influence business leaders to potentially driving their companies toward responsible corporate social initiatives. As far as CSR in Asia is concerned, studies have shown a growing trend in CSR involvement by business entities in this region. However, in comparison with developed countries, research in this area of study is still limited and underperformed. Thus, all parties including government and non-government bodies need to jointly support and increase research especially in evaluating CSR practices and performance in Asia.

CHAPTER 4

CORPORATE SOCIAL RESPONSIBILITY: THE MALAYSIAN CONTEXT

4.1 INTRODUCTION

This chapter presents the issues of corporate social responsibility (CSR) in the Malaysian context. The beginning part of the chapter provides an overview on the concept of culture and its impact on business decision making in Malaysia. A details discussion on the distinctive culture value of three major ethnic groups namely, Malay, Chinese and Indians in business practices is provided. A focus is also given to the development of CSR in the Malaysian context. It is also the aim of this chapter to highlights the development of Islamic capital market centre and its impact on CSR practices. The last part of the chapter reviews previous studies on CSR discourse in Malaysia.

4.2 THE INFLUENCE OF CULTURE ON BUSINESS IN MALAYSIA

Generally, studies on nationality and its impact on business practices and management decision making do not discuss sub-culture within countries (Bhaskaran and Sukumaran, 2007). In many countries, especially throughout Asia, ethnic group and religion of the population can become significant issues for business owners and managers in determining their actions, work values and business policies. To some extent, the acceptance of business entities towards multicultural perspective will help business owners and managers to create a space of success.

4.2.1 Culture Value

Culture is an inclusive system of communications that incorporates biological and technical behaviours of human beings with their verbal and nonverbal systems of expressive behaviour (Herbig and Dunphy, 1998). Although there are over 160 definitions of culture that have been documented (Kroeber, 1985), basically the characteristics of culture are identical in almost all the instances (Kanungo, 2006). According to Hofstede (1980), culture is defined as the norms, values and beliefs of a particular area of location and shared by its members. This definition synthesises that norms, values and beliefs system can influence the members of the community to behave and act in a particular way considered acceptable by the other members in the group (Rashid and Ho, 2003). Hofstede (1991), Trompenaars (1993), Czinkota and Ronkainen (1993) and Herbig and Dunphy (1998) agreed that culture is the sum of a way of life that encompasses religion, values, beliefs, languages, economy, social institutions, policies, attitudes, perceptions, customs, material items, and living practices shared by members of a society, which subsequently influences managerial values. Culture in a country has a strong influence on the way the people behave. Culture plays significant role in determining and developing the culture of an organisation – its expected norms and practices. Without clear understanding on what constitutes acceptable behaviour and practices, firms can be labelled as insensitive, inconsiderate and even ineffective (Abdullah, 1992). Ultimately, the types of management development and management practices offered and adopted by companies should take into consideration the local culture and individual values of that organisation.

Many researchers recognised that culture is a very important variable that may influence the attitudes and behaviour of individuals (Saufi et al., 2002). Some authors such as Granovetter (1985), Newman and Nollen (1996) and Kanungo (2006) argued that cultural differences are indeed important in determining business decision and management practices. A cross cultural study conducted by Alderson and Kakabadse (1994) found that differences in national culture give impact on management decision making. The results from the study showed that managers in the United States perceived employee safety, bribes, expense account fraud and animal experimentation as less important issues than the perception by the Irish and British respondents. Besides, Fatehi (1996) opined that business organisations are dependent on the effective interactions with their environment for existence and survival. This dependency includes the relationship between the organisational culture and the cultural values (Kanungo, 2006).

Mazneski (1994) stated that cross-cultural awareness facilitates to perform a set of task successfully. For example, it is important for multinational companies to accommodate foreign culture into their business strategy to gain success. The lack of understanding and unconsciousness of a region's cultural values and its business environment will lead business into failures. This statement suggests that different culture ultimately reflects different perceptions, attitudes, values and actions among the members of the society towards business practices in a country. Bonthos (1994) suggested that people in different culture respond in different ways, and they have different value systems that make difference in business practices. He also found that culture-to-business is the key component of management practices in the changing global scenario.

4.2.2 Malaysian Business and Managerial Culture

Malaysia is a multicultural country with a presumably diversified set of values based on ethnicity and religion. Prior to the British intervention in Malaya in 1875, the population was predominantly the Malays and other indigenous ethnic groups. Due to economic and political reasons, the British brought in the Chinese and Indian labours to assist in exploiting of the resources in Malaya (Gale, 1981). After Malaysia achieved its independence in 1957, the Chinese and Indian communities were well-admitted by the majority of Malay community to be Malaysian citizens and to live with peace and harmony. As Tunku Abdul Rahman, the first Prime Minister said on 9 May 1969:

“The Malays have gained for themselves political power. The Chinese and Indian have won for themselves economic power. The blending of the two with complete goodwill and understanding has brought about peace and harmony, coupled with prosperity to the country.”

(Tunku Abdul Rahman as cited in Comber, 1983)

Although nearly 60 percent of the Malaysian population are Malay, a substantial number of the Chinese tends to dominate not only business and economic powers, but management and professional positions also (Eyre & Dwyer, 1996). Hamzah (1990), Abdullah (1992), Rashid and Ho (2003), and Kelly and Wachtel (2005) pointed out that Malaysians from different ethnic groups had maintained their identities and continued performing their culture values, norms, languages and beliefs throughout the history of the country. Managing multiethnic society in Malaysia has been a central issue both during the pre-independent era and today's growing economy. Hence, any examination of Malaysian business practices cannot avoid a parallel study of the complete cultural dimension that is ultimately the strength and the bane of Malaysia today (Maniam, 1986).

Maniam (1986) further claimed that barriers to communication and understanding between cultures can develop due to the differences in the way different people think, feel and act. In fact, conflicts between cultures are unavoidable as the traditional barriers that separate people – national, social, cultural, ethnic group and economic – are gradually deteriorating. In Malaysia, since the independence and especially after the May 13 race riots, the elimination of these barriers has been accelerated by the Government through various programmes. The attempt to develop a common Malaysian culture is in fact an attempt by the Government to deliberately break down obstacle to interaction among ethnic groups. Abdullah (1999) argued that most Malaysian business borrowed their administrative and managerial style from British, which has created a style that fall somewhere between the East and West. Hamzah (1990) asserted that a manager who is well-versed with management concepts and applications derived from the West may be truly efficient but may not be effective if he does not understand the cultures and norms underpinning certain community. Another finding by Abdullah (1996) also pointed out that although Western practices are essential in the organisation, they must be in harmony with the values of the local community especially when it comprises of different ethnicity.

In general, many scholars like Storz (1999), Abdullah, (2001), and Hassan and Ahmad (2001) acknowledged common Malaysian business values such as being collectivist, paternalistic, hierarchical and relationship orientation. According to Hofstede (2003), collectivism is seen as a common Asian value that may be the reason the people in an organisation can work well together. Paternalism, which is interconnected to a strong hierarchy, is also common among Asian organisations (Abdullah, 2001). Another common managerial style in Malaysian organisations is relationship orientation. This is

in part related to collectivism and feeling a sense of obligation to the group (Kelley and Wachtel, 2005). Therefore, it is indeed important to understand the distinctive cultural values of the ethnic groups when dealing with a multicultural society like Malaysia (Selvarajah and Meyer, 2006). Moreover, these ethnic groups have vigorously defended and maintained their individual cultures throughout the history of the country (Kelly and Wachtel, 2005). This offers a challenge to business owners and managers, as the needs of each ethnic group vary greatly depending on the cultural values in each group (Kelly and Wachtel, 2005). In business context, it seems that managers in Malaysia, a country with different ethnic group, cultural and religious backgrounds, will give different impacts on the way business is conducted, and thus influence differences in work values, beliefs, perceptions and orientation of business practices (Kelley and Wachtel, 2005; Selvarajah and Meyer, 2006).

Historically, according to Mansor and Kennedy (2000), Malaysia's colonial heritage together with more recent foreign investments by Japanese and Western countries have modified the traditional patterns in the way businesses are operated in this country. They further stated that increasing numbers of joint venture together with country's drive towards higher level of industrialisation and economic prosperity have been associated with a "Westernisation" of business practices. Nevertheless, the key aspect of religion and cultural values underpinning the Malaysians' beliefs and principles makes management practices in Malaysia different from the rest of the world.

According to Cox and Blake (1991), a clear understanding in cultural values and multiculturalism surrounding business organisations provides several advantages to the business management such as costs reduction, resource acquisition, marketing advantage,

creativity, problem solving and organisational flexibility. Hence, in order to understand business culture in Malaysia, it is important to address the cultural characteristic of the three main ethnic groups namely the Malays, Chinese and Indians. Of the three main ethnic groups, the Malays are usually considered as indigenous or *bumiputra*, and the Chinese and Indians as non-*bumiputra* (immigrant descendant).

(1) Malay Values

Malay values are closely associated with the teaching of Islam (Mastor et al., 2000; Omar, 2006). According to the Constitution of Malaysia, Malays are Muslim and therefore, Islam is seen to have significant impact on the establishment of Malay identity, culture and *adat resam* (traditional customs). In addition, Islam is an important element that shapes the Malays' ethics and behaviours. For instance, Malays may not easily change their views on the unlawfulness of alcoholic drinks, gambling activities and premarital sexual relationship (Mastor et al., 2000). Social relationship and behaviour of the Malays are also formulated by the concept known as *budi* (virtue) (Tham, 1970; Storz, 1999). According to Dahlan (1991), the framework of *budi* concept encompasses of all virtuous qualities such as *murah hati* (generosity), *hormat* (respect), *ikhlas* (sincerity), *mulia* (righteousness), *timbang rasa* (discretion), *malu* (feelings of shame at collective level) and *segan* (feelings of shame at individual level).

Abdullah (1992) suggested that Malays are motivated by their affiliation to groups, families and individuals. According to Crouch (1996), Malays are characterised as polite, self-effacing, prefer to avoid open conflict with others, and value relationships. They tend to be very careful in giving opinions in order not to

hurt others' feeling (Goddard, 1997). In business environment, the Malays who are attracted to tangible rewards seem to respond better to productivity increases if there are benefits accruing not only to the organisation but also to their family, community and nation. Furthermore, they are also satisfied doing work if they have opportunities to show and receive appropriate respect from superiors, subordinates and peers (Abdullah, 1992). In another study, Saufi et al. (2002) pointed out that Malay managers prefer strong leadership with participative management style. More interestingly, the work of Bhaskaran and Sukumaran (2007) provided fundamental characteristics of Malay managers such as possessing strong Islamic affiliations and tendency to inculcate Islamic values and norms, collective decision making, strong nationalistic tendencies, and strong desire to improve the business and position of Malay community.

(2) Chinese Values

Historically, the Chinese came to Malaysia in a large number under the permission of British colonial rule. Besides heavily involved in tin-mining industry, they also dominated trade and commerce as well as in other classes of urban occupations (Leete, 1996). In contrast to the Malays, the Chinese appeared to be indifferent or have less concern on religious matters (Rashid, 2003). Smith (1974) believed that the philosophy of Confucianism, Buddhism and Taoism have blended together and become the value base in the Chinese culture. In other study, Storz (1999) found that Malaysian Chinese people are driven by the Confucianism and it seems to have an impact on their way of life. The value of Confucianism is fundamentally driven by the concept of *ren*, which refers to goodness and humanity. As described by Tu (1985), the achievement of *ren* depends on the

social and moral process of becoming human. In the process of becoming human, Storz (1999) drew five areas to be learnt by human. The first area is the principle of aesthetics (poetry, art, music and calligraphy) where it provides artistic expressions to human feelings and sentiments. The second area is the ritual (*li*), which consists of social interaction and communication ability. The third area is remembrance of the history in order to transform the past experience for better future. The fourth area is political domain where one should be responsible and be a responsive participant based on the hierarchical position. The fifth area is the interaction between the ecology of oneself and the natural environment.

According to Hamzah (1991) and Leete (1996), Chinese culture places great value on the financial rewards and wealth accumulation. The Chinese people are seen as being more energetic, aggressive, self-confident, committed to self-improvement, urbanised, and having strong family relationships (Pye, 1985; Mastor et al., 2000). They are known as an entrepreneurial/business-oriented society, hardworking, risk taking and material oriented. Study by Saufi (2002) revealed that Chinese managers prefer delegating management style. They tend to have less reliance on authority-based leadership in the working environment (Selvarajah and Meyer, 2006). In business culture, Bhaskaran and Sukumaran (2007) asserted that Chinese community holds strong ethnic and clan affiliation that is influenced by Confucian and Buddhist ethics. They primarily emphasise on long term orientation and vision to develop family business.

(3) Indian Values

Historically, the presence of the Indians in Malaysia was due to the large demand of labourers in the agricultural sector especially after the introduction of sugar and coffee plantations. A great increase in demand for Indian labourers was so intense after the introduction of rubber in Malaya in 1905. At that time, British colonial administration involved directly in the recruitment process with the establishment of Tamil Immigration Fund in 1907 (Stenson, 1980). In fact, Indian labourers were regarded by British administration as peaceable, easy to be governed (Heussler, 1981), and having great deal of planting experience (Snodgrass, 1980). The Indian society values extended family with hierarchical structured authority (Chaterjee, 1987). They are characterised for their loyalty, hard work, egalitarian, and organisation abilities. They also value faith, fear of God, sense of belonging, “karma”, and filial piety. In business culture, Khandwala (1980) revealed that Indian managers are speedy and they have reliable information control system. They have a high degree of altruism prominent among employees who are ready to sacrifice themselves for their companies for no other remuneration than an inner sense of duty or loyalty. Khandwala (1980) also indicated that Indians possess high level of interpersonal trust at senior levels especially among family members, or members of the same community. Indians have a tendency to treat social activities as religious duties. They consider social responsibilities towards others as mandatory rather than optional (Mascolo et al., 2004). In another study, Saufi (2002) noted that the Indian managers prefer strong leadership in organisations with participative style of management. In light of the discussion above, Table 4.1 depicts some of the values of the Malays, Chinese and Indians in Malaysia.

Table 4.1
Values of the Three Main Ethnic Groups in Malaysia

Malay Values	Chinese Values	Indian Values
Respect for elders Spirituality/Faith in God Humility Self respect Tact/Indirectness Generosity Sensitivity to feeling Politeness Relationship Apologetic	Food Hard work/Diligence Pragmatism Perseverance Education Wealth/Prosperity Family oriented Harmony Risk taking	Fear of God Sense of belonging Brotherhood Family Hard work Filial piety Karma Champion of causes Loyalty

Source: McLaren, M. C. and Rashid, M. Z. A. (2002). Issues and Cases in Cross-Cultural Management: An Asian Perspective. Kuala Lumpur: Prentice-Hall.

It is worth mentioning that business corporation must consider the fact that the Chinese ethnic group emphasises on finance and success, while the Malay and Indian ethnic groups are more concerned with balanced work and family life. A technique that may be effective is dynamic stereotyping, where the business entities pay attention to the cultural needs of the community where they operate. Later, business corporations can utilise their knowledge and understanding of the local community to formulate better policies that will cater each ethnic group's desires. Business managers in Malaysia, regardless of their origin and ethnicity, must keep in mind that distinctive cultural values may affect management style and decision making.

4.3 STUDIES ON CULTURE AND BUSINESS PRACTICES IN MALAYSIA

There are a few studies that demonstrated cultural differences among ethnic groups towards managerial values and attitudes in Malaysia. Sarachek et al. (1984) carried out a study to compare the opinion of the Malaysian middle managers and professionals towards business (private sector) and Government (public sector). They found convergence of attitudes of the Malay and Chinese respondents towards both sectors. The

respondents showed greater tendency to trust Government's honesty rather than in business's honesty. The greater willingness to trust Government, which is dominated by the Malays, may reflect the traditionally higher status of Government in Malay society (Sarachek et al., 1984). However, with respect to trust levels, it was found that the Chinese respondents were more apt to feel comfortable with peers than the superiors, whereas Malay respondents were more apt to feel comfortable with superiors than the peers. That is the reason Malays were more willing than the Chinese to back up fellow employees who have trouble with their superiors (Sarachek et al., 1984).

Another earlier study was concentrated on the area of business ethics. Rashid (1989) conducted a study to investigate the influence of socio-cultural factors on perceived unethical practices among managers in banking industry. The study showed significant differences of perceived unethical practices among Malays, Chinese and Indians. The differences were found on the business practices related to "malpractices in sale" and "gaining competitor information". The Indian respondents perceived both statements as more unethical business practices than Malay and Chinese respondents. The Malay respondents perceived "malpractices in sales" as less unethical than the Chinese respondents. On the other hand, the Chinese respondents perceived "gaining competitor information" as less unethical than the Malay and Indian respondents. Hence, the study revealed that the Indian managers in Malaysia had lower tolerance of unethical business practices than the Malay and Chinese managers. In summary, the study showed that the Malays and Chinese in Malaysia were more adaptive to the business environment than the Indians (Rashid, 1989). Saufi et al. (2002) conducted cross-cultural study on the leadership style preference among managers in Malaysia. It was found that leadership styles are shaped by the managers' individual culture and ethnicity. The study showed

that Chinese managers prefer delegating leadership style while the Malay and Indian managers prefer participating leadership style. This implies that the Malays and Indians are willing to be involved in management decision-making process (Saufi et al., 2002). These results are consistent with Abdullah's (1996) argument that Malays and Indians value cooperation, participation and teamwork. In contrast, Chinese prefer to gain greater autonomy in carrying out their duties (Saufi et al., 2002). The preference of delegating leadership style by the Chinese is also justified by other finding in the study conducted by Saufi et al. (2002) that the Chinese managers possess higher degree of individualism than Malay and Indian managers.

More recently, Selvarajah and Meyer (2006) conducted a study to explore the relationship between leadership and ethnicity in multicultural society. They selected 292 managers who worked in Malaysia and they were asked to value statements with regards to the eleven constructs related to leadership excellence. The results of the study showed significant ethnic groups differences with regards to the dimension underlying leadership excellence. Only for the construct of "multicultural orientation", there was no significant difference among ethnic groups. The study demonstrated that the Chinese managers in Malaysia attribute all constructs as less important than the Malay and Indian managers. On the other hand, the Malay and Indian managers scored greater importance on benevolent authority than the Chinese managers. This finding reflects the fact that most of Malaysian Chinese are naturally business-oriented community and they are committed to self improvement (Pye, 1985; Mastor et al., 2000), thus reducing the importance of leadership and management attachment in work (Pye, 1985). Overall, Malaysian Chinese managers display less dependent on authority based leadership in the organisational environment than the Malay and Indian managers.

In heterogeneous world, managing ethnicity is increasingly important in the business environment. Based on the discussion on past studies described above, it can be elucidated that there are differences in the attitudes and perceptions on business practices among communities from different culture and ethnic groups. Such differences can be attributed to the different assumption and values held by the communities, consequently providing variation in their perception on business activities.

The following section discusses the concept underpinning the construct of CSR from Islamic perspective. The lack of understanding of the underlying concept may thwart the vision of Malaysia to become an international Islamic financial hub.

4.4 CSR PRACTICES IN MALAYSIA

Over the past decade, CSR agenda has increasingly come under the spotlight over cases of unethical business practices by public and private companies around the world. Shareholders and members of the general public are being confronted with a steady stream of corporate scandal that has an increasingly deteriorating effect on investors' confidence (Miller, 2009). Wilson (2000) asserted that this trend is in the making as corporations realise that their practices and products are being subjected to moral and ethical scrutiny by society around their business operations. The importance of CSR commitments and initiatives may have a direct impact on the success of the future business atmosphere as many organisations worldwide have come under pressure to comply with the international standards (Miller, 2009). Along with the increasing pressure on the corporations from the public and the Government, Malaysian companies have to find ways to comply with the standards.

Malaysia is an ever-growing business hub in Asia, and the country's vision to become a developed nation by 2020 may pivot on its ability to meet many of the challenges that arise from globalisation, increasing competition, and raising expectations from the customers and society. The emergence of Malaysian CSR discourse takes place in a hybrid of political economy, where the economy is very open in terms of foreign trade and foreign direct investment for decades (Wad and Chong, 2008). Wad and Chong (2008) believed that the financial crisis of 1997/1998 in East Asian region has given impact on the political perception of corporate governance and nurtured the rise of new CSR discourse by both the public sectors as well as the private sectors in this country. The issues of good corporate governance and CSR have become a key issue locally and internationally after the financial crisis. Among developed countries and international financial institutions, it was claimed that bad corporate governance especially corruptions and cronyism caused the devastation of the East Asian Miracle (Rodan et al., 2001). Since 1997, the foreign direct investment inflow has never regained its former momentum. It dropped from USD7.3 billion in 1996 to USD2.7 billion in 1998, and recovered at a level of between USD4 billion to USD5 billion in 2004-2005 (United Nations Conference on Trade and Development (UNCTAD), 2006). Furthermore, the capitalisation of the stock market in Malaysia decreased slightly from 1996 to 2006, while the stock markets in other countries such as Hong Kong, South Korea, India, and Singapore increased several times (Wad and Chong, 2008). It was argued that, if the stock market capitalisation is an indicator of investors' confidence in the effective corporate governance and CSR of public limited companies, those figures indicate that Malaysia's reputation in financial services sector has fallen behind several of its regional competitors in foreign direct investments (Wad and Chong, 2008). In order to demonstrate the commitment to achieve economic advancement, Malaysian Government

is keen to incorporate CSR programmes into companies' agenda to heighten their profile, so that they can gain recognition and increase investors' confidence from the perspective of local and international investors.

The Malaysian Government has introduced CSR aspiration since the early 1990s, when Tun Mahathir Mohamed, the Prime Minister of Malaysia at that time conceived the Vision 2020 to drive the country from being consumer society into being knowledge generating society (Wad and Chong, 2008). Three out of the nine challenges in the Vision 2020 reflect the fundamental principles of social responsibility namely: (1) a moral and ethical community, (2) a fully caring culture, and (3) an economically just society. The ultimate aim of Vision 2020 is to establish a united nation – a Malaysian society that is infused by strong moral and ethical values, democratic, liberal and tolerant, economically just and equitable, progressive and prosperous (Amran and Devi, 2007). The Vision 2020 outlines five strategic objectives of which one is the need to enhance the standards of corporate governance and business ethics as well as to improve the quality of life and the quality of the Malaysian citizens (Najib, 2004).

The concern about CSR in Malaysia can also be interpreted from several ministers' speeches addressing the concern by the Government in promoting CSR practices. For example, the Deputy Governor of Central Bank of Malaysia stressed that "*...the Government's priority is to ensure the business and public activities pay heed to CSR issues such as eradicating poverty, conserving energy, combating deforestation, managing fragile ecosystem, protecting health, and managing land resources*" (Yakcop, 2004). The Minister from the Ministry of Science, Technology and Innovation stressed that it is important for business corporations to demonstrate that they are fulfilling their

social obligations to the environment, and he concluded that “*since companies seem reluctant to engage in some form of environmental reporting...we may have to make it mandatory, amending the Environmental Quality Act 1974 if there is a need*” (Thompson, 2003). In addition to that, in 2006 Budget speech, the Prime Minister of Malaysia at that time, Tun Abdullah Ahmad Badawi pointed out the requirement for all public listed companies to disclose their CSR activities. The analysis of the speeches dictates an opportunity for logical thinking about CSR, and for the companies to become more engaged to being socially responsible and to harmonise their approach in the process of CSR with the way they normally work and think. This may also mean considering CSR as part of their core business activity.

In the effort to realise these dreams, the following section illustrates several initiatives undertaken by the Government and non-government institutions, public sector and private sector in Malaysia in promoting CSR practices.

4.4.1 Government and Government Linked Institutions Initiatives

The CSR initiatives taken by the Malaysian Government are evident (Amran and Devi, 2006). The Government’s plan in response to CSR can be identified in the development, planning and monitoring system under the five yearly Malaysia Development Plans (Amran, 2006). Hasan and Adnan (2002) stated that the CSR agenda has been integrated in the Sixth Malaysia Development Plan since 1993 and the latest being in the Ninth Malaysia Development Plan, covering the period between 2006 and 2010. In line with the Government’s CSR aspiration, the state investment arm, Khazanah National Berhad, as

part of the Government-Linked Companies (GLCs)⁴ launched the Silver Book that contains CSR guidelines for the GLCs. The Silver Book provides a set of principles and long term guidelines over ten years (from 2004 to 2015) to be implemented by GLCs so that they can contribute proactively to society while creating value for shareholders. It also guides GLCs the way they can clarify and manage their social obligation (Khazanah National Berhad, 2006). By 2015, GLCs are expected to champion CSR programmes at par with competitors within the region.

The Malaysian Government in its 2007/2008 Budget outlined incentives for companies with CSR programmes. The budget also introduced the need for public listed companies to report on their CSR activities. However, much is yet to be done as most companies particularly in the Second Board⁵ are yet to design CSR activities in line with their corporate philosophies – to create a win-win situation for both the business sector and the communities around them. Following the call for CSR from the 2007/2008 Budget, Bursa Malaysia, the stock exchange of Malaysia has developed CSR framework for public listed companies to provide a description of CSR activities or practices undertaken. The framework focuses on four dimensions as follows:

- (1) Environment – climate change, energy, waste management, biodiversity and endangered wildlife.
- (2) Community – employee volunteerism, education, youth development, underprivileged, graduate employment and children.

⁴ Government-Linked Companies (GLCs) are generally perceived by the Government as the drivers of the Malaysian business sector as they comprise more than a third of the capitalisation of Bursa Malaysia and half of the Kuala Lumpur Composite Index (Yakop, 2007).

⁵ Bursa Malaysia Second Board is made up of smaller companies with a minimum of MYR40 million paid-up capital.

- (3) Marketplace – green products, stakeholder engagement, ethical procurement, supplier management, vendor development, social branding and corporate governance.
- (4) Workplace – employee involvement, workplace diversity, gender issues, human capital development, quality of life, labour rights, human rights and health and safety.

However, it is argued that the framework is too broad and it neither provides the complete story about CSR from the Malaysian perspective nor the answer. As the framework allows flexibility in companies' approach, they will only provide good report about their CSR activities. Furthermore, the framework provided does not apply uniformly to all companies as they have to choose the ones relevant to their field of business in order to gain competitive advantages. In Malaysia, there are presently no accounting standards for disclosing CSR information. In the absence of such standards, CSR activities would be entirely voluntary in nature and it is a concern that this slack of standard may mean that CSR involvement by companies will be very much public-relation oriented.

4.4.2 Non-Government Institutions Initiatives

Another key player in promoting CSR discourse in Malaysia has been from the non-government institutions. In 2006, the Institute of Corporate Responsibility Malaysia (ICRM), or formerly known as CSR Malaysia, was formed. It is a unique network of academic members and 34 corporate institutions mostly from GLCs committed to advancing responsible business strategies and practices that have "triple bottom line" impact – on people, environment and economies. The organisation is strongly supported

by Bursa Malaysia, Security Commission and Khazanah Nasional Berhad. Its strategies are built to raise the level of CSR consciousness among corporate institutions in Malaysia, to increase the capacity and capability to combat environmental and social concern, and to promote responsible business as part of the solution towards sustainable development. Since its establishment, ICRM has carried out a series of multi-disciplinary workshops addressing the issues on CSR and stakeholders engagement (Ibrahim, 2007). Local professional association such as the Association of Chartered Certified Accountants Malaysia (ACCA) also has been active on CSR issues for years. The annual ACCA Malaysia Environmental and Social Reporting Awards (MESRA) aims to identify and reward the participating corporations for their innovative attempts to communicate their organisational performance through disclosure of environmental, social and full sustainability information (Tay, 2006). ICRM and ACCA Malaysia also aim to encourage Malaysian companies to adopt global CSR principles and best practices such as signing up to the UN Global Compact (www.undp.org.my).

Ironically, despite of many efforts, initiatives, and development plans by the Malaysian Governments to establish a strong foundation for CSR strategy and implementation since 1993, studies show a slower response to the increased concerns about CSR issues. According to ACCA report in 2002, Corporate Environmental Reporting in Malaysia is still in its infancy (ACCA, 2002). In addition, Thompson and Zakaria (2003) argued that the lack of pressure from other stakeholders such as the non-government organisations and pressure groups may explain the reasons only few companies take CSR seriously.

From an international CSR standard perspective, Wad and Chong (2008) claimed that the Malaysian CSR performance is weak. They asserted that the Government is not taking a proactive and progressive stance “in practice” on international labour rights, occupational health and safety standard, and environmental issues. In fact, there is only one firm, a foreign controlled firm named Dupont Malaysia Sdn. Bhd. that appears at the UN Global Compact list for Malaysia. In 2004, only two Malaysian incorporated companies, BAT Malaysia and Sime Darby, which appeared on the Dow Jones Sustainability World Index among other 310 companies (Wad and Chong, 2008). According to UNCTAD (2006), Malaysia does not adhere to the Organisations for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises although other non-OECD countries do such as Brazil.

Besides the progressive efforts on the CSR initiatives, Malaysia has also made a significant advancement in nurturing socially responsible investment (SRI). The emergence of SRI in recent years has provided an added movement to CSR progress in Malaysia. SRI encompasses social and environmental criteria in the investment decision-making process. Thus, SRI provides incentives for listed companies to be socially and environmentally responsible as a means of attracting funds from social investors (Wad and Chong, 2008). To encourage SRI, two ethical funds, Mayban Ethical Trust Fund and Phillip First Ethical Fund, were set up by the Malaysian Government in 2003 to promote investment in companies that are not only profitable, but also must not be involved in undesirable business such as liquor, gambling, pornography and tobacco as well as having socially accepted practices such as good corporate governance and are environmentally friendly (Yakcop, 2004). These funds often provide comparatively good

financial returns as well as additional social and environmental benefits that go beyond direct financial rewards to the investors.

With the increasing awareness and global demand for SRI practices, the Government has continued to establish Malaysia as the centre for international Islamic capital market. As a result, the Malaysian Government has created a favourable environment for the development of Islamic funds under the Capital Market Masterplan (www.sc.com.my). Islamic funds are not permitted to invest in companies that involve in any kinds of prohibited practices such as *riba* or interest, and production or trading of prohibited products. The portfolio of Islamic Investment Funds must comprise the Islamically acceptable companies whose primary business is *halal* or acceptable. To encourage the development of Islamic funds, the Securities Commission Malaysia has maintained a list of *shariah* compliant companies for securities trading on the Bursa Malaysia. This will undoubtedly continue to foster the tremendous growth of the special category of SRI funds namely, the *shariah* approved funds (Wong, 2003).

Between 1998 and 2000, Islamic funds in Malaysia have grown tremendously by 128 percent. The figure shows that financial modules offered based on *shariah* principle have gained a good potential from the market (Wong, 2003). Notably, in 2002, about 20 percent of the investors in Islamic funds were from the Chinese ethnic group. This demonstrates that Islamic principles are universally acceptable across ethnicities and religions. As in March 2011, there were 156 Islamic funds with more than 1,873,000 accounts and with net asset value of MYR25.024 billion, representing about 18.33 percent of the Bursa Malaysia's capital market (www.sc.com.my).

4.4.3 Islamic Banking and Finance

The significant increase in the development of Islamic fund in Malaysia basically started from the Government's effort in introducing Islamic banking system through the establishment of Bank Islam Malaysia Berhad (BIMB) in 1983. Since then, Islamic banking institutions continue to grow steadily in Malaysian financial sector. In recent decades, Islamic banking system has emerged as one of the most important trends in the financial world (Khir et al., 2008). There have always been demands for banking products and services that conform to the *shariah* law. Many conventional banks and financial institutions are increasingly becoming interested in Islamic banking (Ismail, 2010). By 2002, there were 200 Islamic banking and financial institutions with over USD8 billion in capital and over USD100 billion in deposits, managing assets worth more than USD160 billion.

Although the Islamic banking offers similar functions and services as the conventional banking system (Chapra, 1985; Rosly, 2005; Khir et al., 2008), the fundamental structures are derived from the *Qur'an* and the *Sunnah* (sayings and actions of Prophet Muhammad). According to the Islamic Bank Act 1983, Malaysia, an Islamic bank is:

“...a company which carries Islamic banking business. Islamic banking business means banking business whose aim and operations do not involve any element which is not approved by the religion of Islam...”

Islamic banking and finance scholars such as Chapra (1985), Ghani (1999), Dusuki (2005) and Khir et al. (2008) argued that Islamic banking system operates within dual parameters; legal and ethical dimensions. Based on legal and ethical dimension of the *shariah* principles, Islamic banking operations are confined to the following guidelines (Rosly, 2005; Khir et al. 2008):

1. The prohibition of *riba* (usury/interest) – Islam prohibits Muslim from taking or giving *riba* regardless of the purpose for which such loans are made and regardless of the rates at which interest rate is charged.
2. The prohibition of *gharar* (uncertainty/speculation) and *maysir* (gambling) – under this prohibition, any economic transactions under Islamic banking system should be free from hoarding, uncertainty, speculation and gambling.
3. The prohibition in engaging *haram* (religiously non-permissible) activities – Islamic banks participate in business activities that do not violate the rules of *shariah*. Any investment in business dealings with alcohol, casinos, pork and pornography would be strictly prohibited.

Essentially, the philosophical feature of Islamic banking is to establish socio-economic justice that is derived from the principle of general mutual responsibility and the principle of social balance (Khir et al., 2008). Islam encourages the practice of trade, just as it has denounced the injustices of *riba*. A criticism of *riba*-based system is that it violates the equity aspect of economic organisation since the borrower is obliged to pay a pre-determined rate of interest on the sum borrowed even though he may incur a loss. The inflexibility of *riba*-based system in a loss situation can lead to a bankruptcies resulting in loss of productive potential and unemployment (Bakar, 2008). From the perspective of Islamic banking system, money is recognised as a medium of exchange and not a commodity for exchange. Islam also requires that business should give the needy a specific portion of wealth. This contribution is called *zakat* and is usually about 2.5 percent of wealth or profit. The main philosophy of *zakat* contribution is to narrow the gap between the rich and the poor as well as to reduce social inequality.

4.5 CSR FROM AN ISLAMIC PERSPECTIVE

Many scholars including Delener (1994), Sood and Nasu (1995) and Humphreys (1996) claimed that religion has considerable influence on peoples' values, habits and attitudes, and it greatly influences individual lifestyles, which in turn would affect social systems and institutions in a particular area or geographical location (Hofstede, 1984). As Peterson and Roy (1985) commented, one function of religion is to provide a framework which makes life understandable and interpretable. In addition, Wilson (1997) and Chapra (2000) also agreed that consideration of religious and ethical issues provide a better philosophical framework for understanding socio-economic phenomena and institution. Therefore, religion has the potential to influence social and economic system and thus, may serve as an important function in determination of business code of conducts and activities.

Islam is numerically the second largest religion with nearly 1.6 billion followers. A Muslim is one who resigns himself to God (*Allah*) and thereby professes the faith of Islam. Muslim believes that Islam is a complete code of life, so that Islam needs discuss about each and every part of life. Following the Islamic resurgence and the increasing concern on the relationship between religion and economic activities, the Islamic perspective of corporate responsibility began to receive substantial attention (Haniffa and Hudaib, 2002). The concept of CSR in Islam encompasses the broader meaning embracing the *aqidah* (faith of God), *ibadah* (worship) and *akhlaq* (ethics and morality). This concept is embodies in Islamic *shariah* which is central to the worldview of Islam (Zaidan, 1999).

On the contrary, the principles that form the basis of CSR theories in the Western perspective are derived from the philosophy of economic rationalism, that is, based upon the doctrine of human logical argument and a secular concept of law (Baydoun and Willett, 2000). As a result, the Western philosophy is flexible and everchanging as it stems from the empirical observation and theoretical construct based on it (Dusuki, 2005). In addition to that, ethical codes of conducts are seen to be relativistic; a given practice may be accepted by an individual or group of people but not acceptable to others (Maali et al., 2003). As argued by Gray et al. (1987), identifying the responsibility of corporation is problematic because responsibility changes over time and from place to place and there is no agreed way of determining whose views are valid.

In contrast to the Western perspective, the Islamic attitudes towards CSR take a rather holistic approach (Dusuki, 2005). These stem from the teaching of the *Qur'an* and the *Sunnah* (saying and practices of the Prophet of Islam), providing a better alternative philosophical framework for man's interaction with his fellow human beings as well as to the environment (Ahmad, 2002). According to Gray et al. (1996) and Haniffa (2002), CSR theories from the Western perspective may not be appropriate due to the following reasons; (1) the theories do not recognize responsibility of companies beyond human society especially to God, (2) the models are based on human faith and as such, may be flawed, and (3) the theories only address the materials and some moral aspect but not spiritual consideration. In fact, Ahmad (2002) claimed that moral and ethical principles derive from divine revelations are more enduring, eternal and absolute. Al-Shatibi (quoted in Nyazee, 2000) asserted that the determination of what is beneficial and what is harmful cannot be left to human reasoning alone, but must be guided by the framework of Islamic *shariah*. Dusuki (2008) further argued that Islam only recognise the role of

reasoning in theorising economic and business activities only in a manner that embraces the transcendental aspect of human existence. This is because the inherent limitations of human beings posit a strong reason which requires Divine guidance especially to ascertain what is right and what is wrong (Dusuki, 2005). Hence, Ahmad (2003) summarised that rational faculty should be used to complement, support and strengthen ethics and morality defined by *shariah*.

4.5.1 Islamic Concepts and Values on CSR

Abeng (1997) stated that business corporation has always played a vital role in the economic and social life of all people throughout the ages. In Islam, business activities are not undertaken to satisfy only material needs and wants but more importantly it should be undertaken to fulfil religious obligation (Al-Shaibani, 1997) and to achieve other non-material objectives such as to secure social needs (Rahman and Goddard, 1998). CSR in Islam derived from the elements of brotherhood and social justice (Naqvi, 1981). The practice of social justice will prevent Muslims from doing harm (Yusoff, 2002). According to Alhabshi (1994), social justice is strengthened through the concept of *ukhuwwah* (brotherhood). Brotherhood makes Muslims responsible to each other. The commitment of Islam to justice and brotherhood demands that Muslim society take care of the basic need of the poor (Naqvi, 1981). From the Islamic perspective, CSR affects the concept of accountability. This flows from the fundamental concept of *tawhid* (unity of God), which requires a total commitment to the will of God. Based on the axiom of *tawhid*, the main objectives of social responsibility should be to demonstrate responsibility to God, society as well as to the environment. *Tawhid*, which signifies the acceptance of the unity of God, provides one single direction in guaranteeing a unified spirit in adhering to the *shariah* (Moten, 1990). In other words, by accepting the unity of

God, all economic activities must adhere to the Islamic doctrines and non-conformance will result in sin (Haniffa et al., 2002). According to Ghazali (1990) and Faruqi (1992), the concept of *tawhid* is build upon on the three important elements. There are:

(1) Man and God

The Muslim's relationship with God is one of love and obedience, complete trust and thoughtfulness, peace and appreciation, steadfastness and active service (Abdallati, 1998). This relationship is strongly built from the essence of the six pillars of faith and five pillars of Islam. This relationship must free from any intermediaries as explained clearly in the *Qur'an* (64:4). Muslims have to be aware that God is always watching, thus they have to ensure that they observe the *shariah* requirements in all aspects of their life. Therefore, business corporations have no choice but to pursue the guidance and laws of Islamic *shariah*.

(2) Man and human beings

Guided by the proper relation with God, man's relationship with other fellow human beings should be inspired by the values of trust, truthfulness, firmness, fairness, respect of the law, kindness and tolerance. Muslim has to develop a good sense of social consciousness and nourish a feeling of human response, provide for his dependents generosity without extravagance and meet their legitimate needs (Adballati, 1998). In the business operation, leaders must respect the (right) of all parties such as shareholders, employees, suppliers, community and environment. Muslim action towards others must be in a form of good deeds which is the key in achieving the central goals of human welfare (Hassan, 2002).

(3) Man and the Environment

Islam teaches man that he should accept and protect everything in the world as valuables. The philosophical background of the Islamic attitudes towards the environment is respect for plants and animals and the ecological balance of the nature for the sake of God who created all things that are considered as having its own value (Othman and Sohaili, 1998). According to Islam, the protection of environment as well as utilization of natural resources for business purpose should be socially responsible.

The concept of *tawhid* also signifies man's role as *khalifah* (vicegerent) on earth. As *khalifah*, mankind is not free but responsible and accountable to God (Haniffa et al., 2002). Hassan (1992) summarised the dual function of man as follows; (1) man as servant of God, and (2) man as *khalifah* on earth. As a servant of God, man needs to worship God, seeks God's pleasure, follow God's laws, be good to all creatures of God and to refrain from doing *al-fasad* (destruction). On the other hand, as *khalifah* on earth, man needs to maintain the harmony and peace, protect the environment, and to fulfil the roles of good manner. The concept of *khalifah* refers to the role, status as well as the mankind's responsibility to themselves and to the community as a whole. This means, every human being are responsible to all Muslims for whatever deeds they have done with regards to the resources that God has entrusted to him.

In governing the corporation, man is seen as the central element for the system to be effectively working in the right direction. From an Islamic perspective all possessions, wealth, expertise, abilities, positions and power are belong to God. Mankind is only trustees. As trustees, it is imperative that human being manage these possessions to the best of their abilities to create a maximum added value in social responsibility with an

intention of creating benefit to the community (Bardai, 2002). The concept of CSR in Islam demonstrates that society has rights and stakes in whatever a Muslim owns. In Islam, business corporations are considered as human institution (Hashim, 1998) which is part of the community. Consequently, the failure to ingrain these values may pose grave problem to the company as well as to the public at large. It should be emphasised that the above discussion on CSR aiming to ensure the interest of society are preserved and to construct a positive image and long-term performance of the business corporation.

4.6 PREVIOUS RESEARCH ON CSR IN MALAYSIA

In Malaysia, there are a few major studies that have been published on CSR discourse. Previous research on CSR practices in Malaysia showed that CSR initiatives have been emerging especially after the East Asian financial crisis, and that the Government together with Government-linked corporations seemed to promote the CSR agenda. CSR involvement, corporate social reporting, corporate social disclosure and social performance have also been the issues in the past (Wad and Chong, 2008).

The earliest published CSR study in Malaysia was conducted by Teoh and Thong (1984). The study employed questionnaire survey to examine the degree of awareness of Chief Executive Officers of selected 100 Malaysian companies. The study focused on three issues namely the concept of CSR, the nature and extent of corporate involvement in such activities, and corporate social reporting. The findings revealed that companies were more concerned with human resource and product or service contribution and only 29 percent of them provided social information in the annual report with the most popular theme being human resources. They found that the social involvement by companies was more extensive compared to their corporate social reporting. This is a consequence of the

perception that there is no tangible benefit from extensive disclosure in the annual report and further, CSR disclosure is not required by legislation. The study also showed that foreign-owned companies made more social disclosures than local Malaysian companies.

In another study, Andrew et al. (1989) examined 119 annual reports of publicly listed companies in Malaysia and Singapore in 1983. The results revealed that only 26 percent of the companies had CSR disclosures. The study also found that a higher number of large and medium size companies disclosed social information as compared to the smaller ones. Human resource was found as a dominant theme of CSR in annual report. It was reported that the industries with the highest proportion of companies with CSR disclosures in their annual reports were banking and finance companies. In summary, the study clearly showed that the level of social responsibility involvement and reporting was very low.

Meanwhile, Seetharaman and Ali (1995) found three main areas of CSR that have been the focus of business corporations in Malaysia. They are employees' safety and health, welfare programmes, and training and development. Under employees' safety and health commitment, Malaysian Government has encouraged companies to set up occupational and health committee to provide training and health services for the employees. In 1993, it was reported that there were 128,000 industrial accidents from which about 78 employees were killed. Workers in manufacturing industries were reported to have been exposed to chemical and biological elements that had affected their health. In order to avoid such incidents, PROTON (National Automobile Manufacturer) has set up safety educational programmes to educate its employees on safe work practices. Employees' welfare is another programme that has received support from Malaysian corporations.

For example, *Permodalan Nasional Berhad* (Malaysian Fund Management Company) is one of the few corporations that have provided child care facilities for the employees.

Ahmad, Sulaiman and Siswantoro (2003) used content analysis to examine CSR disclosures related information in the annual reports of 98 Bursa Malaysia listed companies. The study revealed that 84 percent of the companies had some forms of CSR disclosure. It showed a significant increase of up to 26 percent from the earlier study by Andrew (1989). The study also reported that products and consumers theme came first in disclosure followed by the theme of employee.

Rashid and Ibrahim (2002) conducted a study to examine the attitudes of Malaysian managers and executives towards social responsibility in Malaysia, the extent of socially responsible activities involved, corporate disclosure and the factors determining the attitude towards CSR. The results of the study showed that majority of the managers believed that companies' involvement in social activities such as improving community's quality of life will also improve long run profitability and provide a favourable public image. Overall, the study found out that although managers had positive attitude towards CSR, the extent of their involvement was lower than ten years earlier. According to the study, it is important that private sector moves towards implementing programmes that create fair and just practices in conducting business.

Ramasamy (2007) conducted a survey to explore how attributes of chief executives in Malaysia may influence the formulation and implementation of CSR policies and programmes in Malaysia. The study found that companies with Malay chief executives demonstrated higher corporate social performance levels than companies with Chinese

chief executives. On the same hand, the age of chief executives was found to be a significant predictor of the social responsibility level. However, the education background of the chief executives had no effect on it. Another study by Muhamad and Muwazir (2007) was done to explore the perception of Muslim investors in Malaysia towards CSR from Islamic ethical values. The results of the study indicated that there were two categories of information perceived to be useful by Muslim investors in making investment decision namely company's contribution to public *maslahah* (public interest) and Islamic business operations. More recently, Nejati and Amran (2009) conducted exploratory interviews with managers in small and medium enterprises (SMEs) in Malaysia to investigate the need for CSR and to explore the motivation for practising CSR from the perspective of Malaysian SMEs. The study found that Malaysian SMEs were mostly practicing CSR because of their personal beliefs and values, religious thoughts, and pressure and encouragement from stakeholders.

In summary, there were many previous CSR researches conducted in Malaysia, but limited to CSR reporting, disclosure and performance. Meanwhile, past research on CSR practices from Islamic point of view was limited to either Islamic business organisations or Muslim respondents. Therefore, there is a gap in knowledge on current CSR practices in Malaysia particularly from the perspective of multicultural society. Hence, this study intends to fill this gap.

4.7 CONCLUSION

This chapter reviews the issue of CSR practices in Malaysia by analysing the impact of multicultural society on business management style and decision making. This chapter also outlines the Government's initiatives to promote a good practice of social

responsibility among business corporations. As a developing country, Malaysia has many challenges and deadlines to beat to cross over the other side of the world. However, there is an increasing concern about CSR in recent years among the academicians, government and general public. CSR initiatives have been seen as a platform to position Malaysian companies in the global market. The duty of making the country's dream to come true should not be left to the Government alone. Every Malaysian citizen and every economic sector in the country has roles to play. The contribution of the business community will not only be measured by the taxes they pay to the Government, but also through their contribution to the preservation and protection of the environment and the social welfare of the communities in which they operate. In addition, the Government's aspiration for Malaysia to be an important international centre for the Islamic capital market had initiated the development of CSR and SRI based on the Islamic *shariah* principles. The implications of these principles are also discussed in this chapter as to provide some insight into how Islam perceives the issues of CSR in a holistic way.

CHAPTER 5

RESEARCH DESIGN AND METHODOLOGY

5.1 INTRODUCTION

This chapter presents the research design and research methodology to investigate the perceptions and attitudes of top and executive managers in financial services sector towards various issues of corporate social responsibility (CSR) practices in Malaysia. This chapter begins with the introduction of research philosophy employed in the study. Then this chapter proceeds by elaborating on the research design, sampling procedures and data collection techniques. Ethical issues raised on the survey are also pointed out at the end of the chapter.

5.2 RESEARCH PARADIGM

A research paradigm, according to Collis and Hussey (2003) is a philosophical framework that guides how research should be conducted. The term philosophy is defined as the use of reason and argument in seeking truth and knowledge, especially of ultimate reality or of general causes and principles (Oxford English Dictionary, 2005). It is necessary to understand the nature of research philosophy as it can bring impact to the management and practice of research. Following the ideas from Smith et al. (1991), there are three reasons an understanding of research philosophical issues is crucial to the researcher:

- (i) It helps to elucidate research designs – about how data are collected and analysed. It also provides what kind of evidence is gathered from where, and how the evidence can be interpreted in order to deliver good answer to the research questions;

- (ii) It helps the researcher to recognise which research design is appropriate to be adopted in the study. It should enable the researcher to avoid from going through too many blind alleys and indicate the limitations of particular approaches;
- (iii) It helps the researcher to identify and even create designs that may be outside his or her experience. It may also assist the researcher to adapt research designs according to the constraints of different subjects or knowledge structures.

The researcher's confidence, provided by understanding various issues of research philosophical underpinning the research process, depends on the explanation of ontological and epistemological assumptions.

5.2.1 Ontological Assumption

The ontological assumption is concerned with the nature of reality/social entity (Bryman and Bell, 2003; Collis and Hussey, 2003). This study adopted objectivism as ontological position. Bryman and Bell (2003) described objectivism as an ontological position that asserts social phenomena, and their meanings have an existence that is independent of social actor. It implies that social phenomena and the categories used in everyday discourse have an existence that is independent or separate from actors.

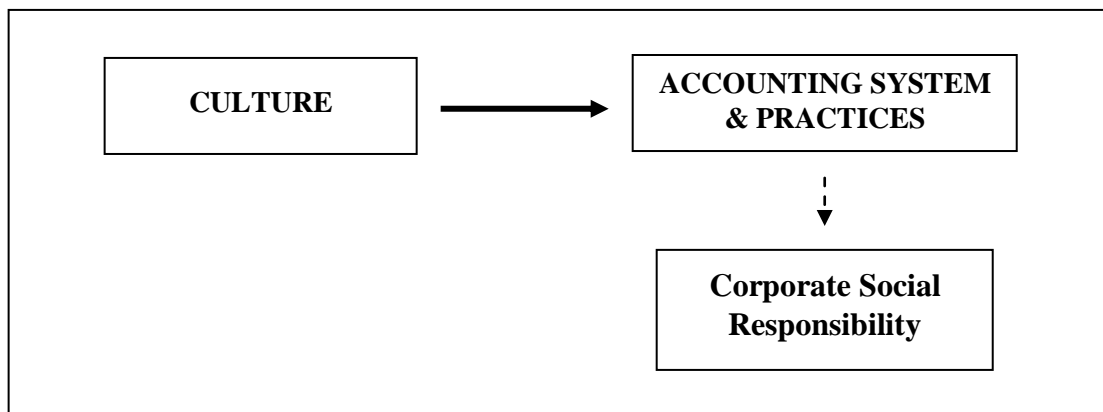
5.2.2 Epistemological Assumption

The epistemological assumption is concerned with what we accept as valid knowledge in a discipline. It is an examination of the relationship between researcher and objects being researched on (Bryman and Bell, 2003; Collis and Hussey, 2003). According to Bryman and Bell (2003), the main issue in this context is the argument of whether the social world can and should be studied according to the same principles, procedures and ethos

as the natural science. This study followed the doctrine of positivism as its epistemological assumption. The positivism manifests that only observable and measurable phenomena can be validly regarded as knowledge (Collis and Hussey, 2003). In other words, this study attempted to maintain an independent and objective stance.

5.3 RESEARCH FRAMEWORK

Figure 5.1
Research Framework



Adapted from Archambault and Archambault (2003). A Multinational Test of Determinants of Corporate Disclosure. *The International Journal of Accounting* p. 176.

The research framework of study was developed and modified based on Archambault and Archambault (2003). As shown in Figure 3.1, the model indicates that accounting system and practices are influenced by culture. Particularly, this study focused on multicultural society in Malaysia (in this context the ethnicity) as the main element of culture in shaping CSR development among business corporations. Specifically, this study investigated the understanding and perception of top and executive managers in financial institutions in Malaysia towards CSR issues and practices.

5.4 RESEARCH DESIGN AND RESEARCH METHOD

Research design is a framework for the collection and analysis of data (Bryman and Bell, 2003). Research design acts as a blueprint that constitutes plan, strategy and structure to assist the researcher's investigations. More importantly, a choice of research design reflects decisions about the priority being given to a range of dimensions of the research process (Bryman and Bell, 2003). There are four types of different research design: experimental design, longitudinal design, cross-sectional design and case study design.⁶ This study adopted cross-sectional design or also known as survey design. It was thought to be the most appropriate research design to be employed especially based on the nature of the research questions and the data required. The term cross-sectional design is used to refer to a study that entails the collection of data more than one case and at a single point in time (Remenyi et al., 1998; de Vaus, 2001; Bryman and Bell, 2003). Cross-sectional design examines how something is done at the time of the research study and it generally seeks to identify and understand differences between the various members of the study population (Remenyi et al., 1998). In addition, by adopting a cross-sectional design, the study is not only able to establish a variation between cases, but also to explore the relationships between variables.

Data collection methods are a vital part in any study. In this research, the data were obtained from both primary and secondary sources. Data from primary sources refer to the information collected firsthand by the researcher on the variables of interest for the specific purpose of the study, while secondary data refer to information gathered from the existing sources (Sekaran, 2003).

⁶ For a detail discussion on different types of research design, refer to Babbie (1998), Bryman and Bell (2003) and Sekaran (2003).

The secondary data in this study were collected to gather information on CSR literature. Information pertaining to the theoretical background of CSR, CSR practices in Malaysia, business environment in Malaysia and culture was obtained from academic journals, books and proceedings. That information was used to assist the researcher in developing research framework. In some cases, secondary data were also used to gather other relevant information about different types of financial institution system in Malaysia that covered commercial banks, investment banks, brokerage firms, fund management companies, insurance companies, unit trust companies and large public fund organisations. The identification, selection and accession of Malaysian financial institutions posed the biggest challenge in this research. No single public registered of Malaysian financial institutions data was available. The data were collected from Government records and various types of electronic sources such as Bank Negara Malaysia (central bank) website, Securities Commission of Malaysia website, Bursa Malaysia website and fund management company website.

As for the empirical part of this study, the researcher employed primary data mainly to suit the nature and purposes of this research, which were to elicit respondents' perceptions towards CSR practices in Malaysia. There are variety of ways in collecting primary data and administering the questionnaire: face-to-face interviews, telephone surveys, self-completion questionnaire and the Internet. After considering the advantages and disadvantages of several techniques, this study adopted self-completion questionnaire approach using mailed questionnaire. The self-completion questionnaire required the respondents to answer the questions by completing the questionnaires themselves. The most well-known form of this method is through mail or postal questionnaire. Mailed questionnaire required the researcher to post the questionnaires to the prospective

respondents. Following completion of the instrument, the respondents were given a period of time to complete and return the questionnaire by post.

The self-completion questionnaire survey was thought to be the best research methods in collecting the data. It allowed quantitative analysis to be conducted in the testing of inferences and also its ability to generalise the findings. More importantly, following the suggestions by Bryman and Bell (2003), the structure of the questionnaire was designed using several approaches such as clear instruction and presentation, closed question with Likert scale, and questions and answer in the same page. In fact, the review of literature revealed that most of the mainstream CSR researchers who aimed to survey respondents' opinions or attitudes towards various issues and dimensions of CSR used questionnaire survey as the instrument in their research method.

5.5 SAMPLING

Having the technique used for data collection i.e. self-completion questionnaire survey determined, the next step was to outline the sampling process. Sampling provides a range of methods that enables the researcher to reduce the amount of data needed by considering only data from a sub-group rather than all possible cases (Saunders et al., 2000). Due to certain limitations and constraints such as budget, time and information access, it was practically impossible to the researcher to collect, investigate and analyse all the data available in the entire population.

5.5.1 Identifying Population

Population refers to the entire group of people, events or things of interest the researcher wishes to investigate (Sekaran, 2003). Based on the research objectives and research

questions, the researcher selected top and executive managers working in the financial institutions in Malaysia as a survey population to be studied. To achieve that, the researcher identified and listed as many target respondent groups as possible from different segments of financial institutions in Malaysia, namely, commercial banks, investment banks, brokerage firms, fund management companies, insurance companies, unit trust companies and large public fund organisations. The selection of financial institutions in Malaysia was based on the following definition:

(1) Commercial bank

Commercial bank is a financial institution that provides services such as accepting deposits and giving loans. Commercial bank offers checking accounts, saving accounts, certificates of deposits and personal and business loans. According to Bank Negara Malaysia, there are approximately 23 local and foreign commercial banks in Malaysia.

(2) Investment bank

Investment bank is a financial intermediary that acts as an underwriter or agent for corporations issuing securities. Investment bank offers a large task in facilitating mergers and acquisition and corporate restructuring. Unlike commercial bank, investment bank does not offer personal loans and accept deposits. Currently, there are 15 investment banks in Malaysia.

(3) Brokerage firm

Brokerage firm is an intermediary that conducts transaction on behalf of a client (individuals and corporations) in search of capital, alongside savers looking for

investment. In exchange, brokerage firm derives profit from commissions according to the level of services provided.

(4) Fund management company

Fund management company acts as an investment advisory that provides investment decision making on behalf of the client. Generally, fund management company has more knowledge in making investment decision than the funds owners. However, fund managers provide limited services to institutional investors and high net-worth individuals.

(5) Insurance/*takaful* company

Insurance company provides a contract by which compensation is guaranteed for the future losses and damages (property or person) in exchange for a periodic payment. On the other hand, *takaful* is a *shariah* compliant insurance. *Takaful* is a joint guarantee scheme and its operation is based on the principle of mutual assistance and voluntarily – where risk is shared collectively by the group.

(6) Unit trust company

Unit trust company is an organisation that pools funds from others through units issuing for public sales and then investing the money in a single fund in order to spread the risk across a range of investment. It also benefits from greater economies of scale, such as reduced transaction costs.

(7) Large public fund organisation

Large public fund organisation is an organisation that pools and manages public funds. In Malaysia, most of large public funds are owned and managed by the Government. For example, *Kumpulan Wang Simpanan Pekerja* (KWSP–Employees Provident Fund) and *Tabung Haji* (Pilgrims Fund Board).

Top and executive managers were selected by the researcher in this study to express their perceptions and attitudes towards CSR practices in Malaysia. The decision was made based on the fact that top and executive managers are at the highest job level of the organisational structure and they are responsible to the entire corporation. Moreover, top and executive managers transform the organisations' policy formulated by the board of directors into goals, objectives and strategies, and project a shared vision of the future. They make decisions that affect everyone in the organisations and are held entirely responsible for the success or failure of the organisations.

5.5.2 Sampling Frame

A sampling frame is the actual list of sampling units from which the sample is selected (Babbie, 1998). The completeness of sampling frame is crucial because incomplete or inaccurate list means that some cases will have been excluded and so it will be impossible for every case in the population to have a chance of selection (Saunders et al., 2000). As a result, the sample may not be representative of the total population and would affect the findings of the research. A representative sample is important as it allows the findings to be generalised to the population (Sekaran, 2003). In the case of this study, the sampling frame would be the list of top managers in all registered financial institutions in Malaysia. The availability of such list would enable the researcher to

sample the population through the use of a table of random number that could ensure random sampling and prevent biasness. A bias sample is the one that does not represent the population from which the sample is selected (Bryman and Bell, 2003).

However, in this study, gathering a complete sampling frame was a critical issue. Furthermore, most of the information regarding financial institutions in Malaysia were scattered over several directories. The main source of reference used by the researcher to compile the sampling frame of the study was through Bank Negara Malaysia (central bank) website, followed by Bursa Malaysia website and finally Securities Commission of Malaysia website. Since not all information regarding financial institutions was available in those resources especially for brokerage firms and fund management companies, the researcher had to gather the information from other sources such as financial blogs, fund websites and business magazines. The next step was to collect and make record of all top managers in each financial institution. Where no information of top management team was available either through company's website or published annual reports, the researcher adopted another strategy by randomly distributed at least six questionnaires to each organisation.

5.5.3 Sampling Design

There are two major types of sampling design namely probability sampling and non-probability sampling. Probability sampling indicates that the chance or probability of each element⁷ being selected from the population is known and is usually equal for all cases. Meanwhile, for non-probability sampling, the probability of each element being selected from the total population is not known (Saunders et al., 2000). In most of the

⁷ An element is a single unit of the population that provides information for the analysis of the study (Babbie, 1998; Sekaran, 2003).

time, non-probability samples are chosen based on judgement regarding the characteristics of the target population and the objectives of the study (Fink, 2009). This study employed probability sampling design with stratified random sampling. A stratified random sampling involves a process of segregation followed by random selection of subjects from each stratum (Sekaran, 2003). Rather than selecting a sample from the total population at large, the population is first divided into mutually exclusive groups that are relevant, appropriate and meaningful in the context of the study (Sekaran, 2003).

It is important to note that the population in this study was top and executive managers working in financial institutions in Malaysia. At the early stage, elements of the population were drawn and grouped into homogeneous subgroups within the population. In this study, the researcher separated financial institutions in Malaysia into seven subgroups: commercial banks, investment banks, brokerage firms, fund management companies, insurance companies, unit trust companies and large public fund organisations. At the second stage, each element (top and executive managers) in the subgroups of the population was randomly selected. Stratified random sampling was selected in this study because this technique permits a high degree of representativeness of the sample (Babbie, 1998) by way each subgroup of the population is better represented (Sekaran, 2003). More importantly, high degree of representativeness will in turn decrease the probability of sampling error.

5.5.4 Sample Size

Sample size refers to the number of units that must be surveyed in order for the study to give precise and reliable findings (Fink, 2009). Sekaran (2003) produced a table showing an adequate sample size required to obtained samples of varying degree of precision and

accuracy. Following the technique introduced by Sekaran (2003), 1000 samples were drawn from the population. A sample size of 1000 is considered as reasonable depending on the number of limitations such as time and budget.

5.6 RESEARCH INSTRUMENTS

5.6.1 Contents of Questionnaire

Corporate social responsibility (CSR) has been the subject of numerous debate and investigation for many years. Despite of considerable empirical researches taking place in developed countries, relatively, little attention has been dedicated to the study of CSR in developing countries like Malaysia. Therefore, a questionnaire was developed to measure the perception of top and executive managers in financial services sector in Malaysia. The questionnaire survey was also designed to investigate whether dissimilarity exists among various cultural backgrounds of the respondents with regards to their perceptions towards CSR. In order to minimise the element of bias in the research instruments, this study employed close-ended types of questions. There were two types of scale of measurement used in the questionnaire, namely nominal and interval scales. For the interval scale, the questionnaire used five-point Likert scale. The questionnaire survey in this research was divided into three parts.

The first section in the questionnaire was designed to examine the general perception of the respondents towards various issues and arguments in CSR practices. This section consisted of 17 statements adapted and modified from Davis (1973) and Orpen (1987). The second section was divided into three parts. The first part aimed to discover the respondents' opinions regarding CSR drivers in financial institutions. The respondents were asked to rate all 11 item on a five-point Likert scale. The second part was on

respondents' perceptions towards the important areas for business community to support. All questions in part one and two were developed and adapted from the relevant literatures and previous research findings as discussed in details in Chapter Three and Chapter Four. The last part of this section aimed to measure the respondents' perceptions about four CSR elements proposed by Carroll (1991) – economic, legal, ethical and philanthropic responsibilities. The questions were adopted and modified from the instrument developed by Aupperle, Carroll and Hatfield (1995), Maignan and Ferrell (2000) and Maignan (2001). The respondents were asked to allocate up to five levels of agreement for the four statements in each CSR element. Carroll (1991) claimed that these four elements addressed the entire spectrum of business responsibility towards society. The final section of the questionnaire was on the respondents' demographic profile. This part of the questionnaire is essential to observe the influence of cultural background on respondents' perceptions towards CSR.

5.6.2 Hypotheses Development

As explained earlier, Carroll (1991) has identified four types of CSR pyramid; economic, legal, ethical and philanthropic. Carroll (1979) claimed that the first and the foremost social responsibility of businesses is economic, followed by legal, ethical and philanthropic responsibilities. Given that Carroll argument is based on the Western business culture, therefore, it is expected that managers in Malaysia are unlikely to incorporate the proposed CSR pyramid ranking. Accordingly, with different business culture and ethnic group ideologies, Malaysian managers may not view economic achievements as a primary business responsibility. Instead, they may sense that business should exercise their economic resources to foster the well-being of society in general.

Previous literatures and empirical researches have indicated that culture has an important influence on perceived CSR priorities (Burton et al., 2000; Maignan, 2000). Evidence shows that CSR in developing countries draws strongly on deep-rooted indigenous cultural tradition of philanthropy and ethics. For example, Amaeshi et al. (2006) found that CSR in Nigeria is framed by socio-cultural influences like communalism, ethnicity, religious beliefs, and charitable traditions. Furthermore, Doctors et al. (1978) and Peterson and Jun (2007) asserted that certain demographic and lifestyle variables considerably diverge from one entrepreneur to another and that these variables are predictive of the decision making and associated behaviour of business corporations. It appears to be appropriate to evaluate these variables to dedication to social responsibility perception and awareness (Peterson and Jun, 2007). Other study indicated that religious commitment has been found to be an influential variable on managers' attitudes and decision making (Barbee, 2005). In addition, Visser (2008) argued that CSR orientation in developing countries is different than that in developed countries. Survey conducted by Vives (2006) on 1300 small and medium-sized companies in Latin America found that the region's religious beliefs are one of the major motivations for CSR. Similarly, Nelson (2004) also indicated how Buddhist traditions in Asia are in line with CSR.

Thus, based on the above arguments, the following hypotheses were developed:

- H₁ There is no significant difference among ethnicity of the managers of financial institutions in Malaysia on the allocation of importance to (a) economic responsibilities, (b) legal responsibilities, (c) ethical responsibilities, and (d) philanthropic responsibilities.
- H₂ There is no significant difference among religion of the managers of financial institutions in Malaysia on the allocation of importance to (a) economic responsibilities, (b) legal responsibilities, (c) ethical responsibilities, and (d) philanthropic responsibilities.

- H₃ There is no significant difference among various companies' profile within financial sector in Malaysia on the degree of agreement that company's social responsibility involvement is dependent upon the national economic condition.
- H₄ There is no significant difference among various companies' profile within financial sector in Malaysia on the degree of agreement that business must avoid any activities that involve alcohol, drugs and gambling element.
- H₅ There is no significant difference among (a) ethnicity, (b) religion, (c) gender, (d) age, and (e) working experience of the managers of financial institutions in Malaysia on the degree of agreement that company's social responsibility involvement is dependent upon the national economic condition.
- H₆ There is no significant difference among (a) ethnicity, (b) religion, (c) gender, (d) age, and (e) working experience of the managers of financial institutions in Malaysia on the degree of agreement that business must avoid any activities that involve alcohol, drugs and gambling element.

5.7 PILOT TEST

Before the final version of the questionnaire was sent out, a pilot test was conducted to guarantee the appropriateness and relevance of the questions in the instrument. The purpose of the pilot test is mainly to check on the quality, uniformity, consistency and content validity of the items used in the instruments, the language used, the timing of the fieldwork and to test the research design. It has been widely recognised that the reliability and validity of the instrument can be improved by using pilot test. Following the recommendations by Huck and Cormier (1996) and Neuman (2003), the pilot test of this study was conducted in August 2008 in Malaysia. A total of 25 respondents were invited to participate in the test and also review the questionnaire. After showing the first draft to the research supervisor, the draft of the questionnaire was circulated and piloted to the managers in financial institutions. The reasons for testing the questionnaire on the same target population are as follows:

First, most of the questions in the questionnaire were taken directly from the previous literatures. The literatures were based on the studies conducted in developed countries such as those from European, Australian and North American continents. These countries have completely different standards of living and cultures with those of Malaysia's. Therefore, there were probably a few irrelevant questions in the questionnaire to be asked to Malaysian respondents and thus adaptations were made prior to conducting the study.

Second, this study aims to explore the perceptions of top and executive managers in financial institutions in Malaysia and it is among the earliest ones conducted in the developing country. In addition to that, this study, among others, also aims to identify the cultural factors of the respondents on the perceptions towards CSR issues and practices in Malaysia. Therefore, it is highly important for the pilot study to be conducted to the actual target group so that the researcher can avoid mistakes. The researcher can also improve the questionnaire to ensure the valid interrelationship in the quality and presentation of each question before the actual study is conducted.

Based on the feedback given by these respondents, several modifications were made to the wording, format and sequence of the questionnaire. The pilot study offers several benefits to this study by allowing the researcher to includes ideas and approaches that can improves the chances of getting clearer findings in the main study. The result of the pilot study also permits the researcher to modify, changing, rephrase and developing better hypotheses to be tested in the main study. After all, the pilot test provides useful inputs in the determination of the direction of the study. Appendix A shows the final version of the questionnaire based on the inputs gathered during the pilot test.

5.8 DATA COLLECTION

The process of data collection continued for three months from November 2008 until January 2009. This study adopted mail survey approach as a method for data collection.

5.8.1 Mail Survey

Mail survey is the only method used in this study to gather the data from the respondents i.e. top managers in the financial institution in Malaysia. The questionnaires were sent through the post to the respondents during the third week of November 2008. The reason why the researcher decided to adopt mail questionnaire survey compared to the other methods is due to the several advantages. First, mail survey is cheaper to administer. Given the samples in this study were widely dispersed throughout Malaysia, therefore, this method consumed lower time and financial cost. Second, mail survey allows questionnaires to be distributed in a very large quantity in one time. In this study, it took only three days in maximum for the respondents to receive the questionnaires. Third, the mail survey benefits from the absence of the researcher. This method permits respondents to answer the questionnaires at time and speed of convenient to them.

Following the suggestion by Bryman and Bell (2003), a personalised cover letter was used in this study to improve response rate. A copy of the cover letter is reproduced in Appendix B. The cover letter underlined the purpose and importance of the research as well as the benefits from participating in the study. The respondents were also explained on the confidentiality and anonymity of their involvement in the survey to increase response rate. More importantly, the researcher also managed to attach informed consent form together with the mailed questionnaire to be filled voluntary by the respondents. Reminder letter was sent out to the respondents in order to increase response rate. The

reminder letter was sent out two weeks after the initial mailing. As proposed by Dillman (1983), the questionnaire was printed using laser jet printing and was set in a booklet form to give the impression of a more professional approach. Finally, a stamped self-addressed envelope was accompanied with each set of the questionnaire to facilitate the mailing process.

5.8.2 Response Rate

The questionnaire mailing and follow-up from a total of 1000 questionnaires generated 384 responses, out of which 376 were usable (valid and completed). All questionnaires returned were anonymous. This gives the response rate of nearly 38 percent, which is considerably sufficient for statistical reliability and generalisation purposes (Stevens, 2002). The response rate of this study compares favourably with previous similar studies. For example, a study conducted by Doukakis, et al. (2005) yielded 10 percent, Quazi and O'Brien (2000) yielded 38.2 percent, Ibrahim and Angelidis (1993) yielded 29 percent and Ford and McLaughlin (1984) yielded 32 percent. Therefore, the researcher did not consider 'test of non-response bias' was necessary.

Table 5.1
Target groups and Response Rate

Target Group	Distributed Questionnaire	Returned Questionnaire
Commercial Banks	200	79
Investment Banks	150	54
Brokerage Firms	150	40
Fund Management Companies	100	42
Insurance/ <i>Takaful</i> Companies	200	67
Unit Trust Companies	100	46
Public Fund Organisations	100	48
Total	1000	376

5.9 ETHICAL ISSUES

In conducting any study, ethical issues will definitely arise in relation between the researcher and the research participants. In this study, there were four ethical considerations need to be elucidated by the researcher:

(1) Maintaining the Privacy/Anonymity of the Respondents

The researcher had to convince the respondents on their anonymity at all time. The respondents were informed about the uses of the information they provide and their identity will never be documented. Privacy of the respondents also includes the right of the respondents to give and decline information in the study.

(2) Data Confidentiality

Data confidentiality implies that when the respondents provide information that is believed to be confidential, the information must be kept as confidential by the researcher (Kennedy, 2001). Therefore, in this study, the researcher had to give assurance that the information provided by the respondents will only be used for the purpose of the study and people other than the researcher will not be able to get access to the information.

(3) Informed Consent

Informed consent is important in order to invite respondents to participate in the study. In this study, the researcher provided a cover letter together with the mail survey to briefly describe the purpose of study and explain to the respondents that their participation in the study is voluntary. It is also important to state that they have the right to withdraw the information from the study at any time.

(4) Deception and Harm

The respondents were informed that the researcher will give assurance that all the information submitted will be handled in a sensitive way. The respondents had also been informed that their identity and information provided will be protected and not be disclosed to the organisation they represent.

5.10 CONCLUSION

This chapter has outlined the research methodology employed, especially in conducting the empirical part of the study. The research framework and research design has also been discussed in this chapter. It has also highlighted the sampling procedure of the study as well as the data collection process. There are six hypotheses in the study that has been developed based on the previous research findings and empirical results.

CHAPTER 6

FINDINGS AND ANALYSIS

6.1 INTRODUCTION

This chapter presents the result of the analysis and testing out the hypothesis through different statistical tests that were developed in the research framework and methodology chapter. The first section of the chapter begins with the analysis of demographic background of the respondents who have participated in this study. The primary objective of this chapter is to explore the perception of top and executive managers in the financial services sector in Malaysia towards various social responsibilities issues. In particular, this chapter provides the results regarding issues such as managers' awareness and perceptions towards CSR, factors that drive corporation to tune into social responsibility actions, and the commitment of corporation towards social responsibilities. It is also the aim of this chapter to evaluate and compare the impact of culture especially the ethnicity and religion towards various issues of the CSR practices. Furthermore, the last part of this chapter will look more into any significant differences that exist among multicultural society towards Carroll's CSR pyramid construct and how CSR is manifested among the managers in a developing country like Malaysia.

6.2 BACKGROUND OF RESPONDENTS

A detailed descriptive statistic is carried out by the researcher to provide a preliminary understanding of the characteristics on respondents who are managers working in upper and middle management level of various financial institutions in Malaysia. This method is widely used in many previous studies, especially studies that involve the survey and investigation of perceptions and attitudes issues (Dusuki, 2005). This method of analysis

has been practised in many previous studies as first stage before any further statistical analysis is conducted to the respondents. It is aimed to provide the demographic background of the managers who are working from different types of financial institutions in Malaysia. An understanding of the respondents' background may give more insight into the perceptions and the attitudes of managers in financial institutions on CSR issues in Malaysia especially in terms of different ethnic groups and culture values. As mention in the previous chapter, a total of 376 useable responses were generated from a total of 1000 questionnaire that were distributed. The samples of the respondents were taken out from managers in the upper and middle management level of various financial institutions in Malaysia.

6.2.1 Background of Respondents by Gender, Age and Working Experience

Table 6.1
Background of Respondents by Gender, Age and Working Experience

	Frequency	Percent
Gender:		
Male	271	72.1
Female	105	27.9
Age:		
30 years and below	39	10.4
31 - 40 years	139	37.0
41 - 50 years	136	36.2
51 years and above	62	16.5
Working Experience:		
5 years and below	31	8.2
6 - 10 years	55	14.6
11 - 15 years	80	21.3
16 - 20 years	82	21.8
More than 21 years	128	34.0

As depicted in Table 6.1, most respondents were predominantly male. Nearly three quarter of the respondents were male (72.1 percent) compare to female (27.9 percent). The combination of respondents between age 31-40 and 41-50 represents 73.2 percent of the total respondent. Relatively few were either below 30 years of age (10.4 percent) or

over 50 years of age (16.5 percent). The distribution of age indicates that the perceptions of respondents towards CSR issues and practices in Malaysia will be dominated by the opinion of the middle-aged respondents. The majority of the respondents (34.0 percent) had more than 20 years working experience, while only 8.2 percent of the respondents had only 5 years of working experience and below. A quite similar distribution of respondents can be seen for working experience ranging between 11-15 years (21.3 percent) and 16-20 years (21.8 percent). The positive direction between the number of respondents and the working experience occurs because the sample of this study focuses more on the upper and middle managers who generally possess more experiences.

6.2.2 Background of Respondents by Ethnicity and Religion

Table 6.2
Background of Respondents by Ethnicity and Religion

		Frequency	Percent
Ethnicity:	Malay	243	64.6
	Chinese	113	30.1
	Indian	20	5.3
Religion:	Islam	247	65.7
	Buddha	61	16.2
	Hindu	12	3.2
	Christian	45	12.0
	Others	11	2.9

The results illustrated in Table 6.2 shows that majority (64.6 percent) of the respondents were Malay followed by 30.1 percent of Chinese respondents. About 5.3 percent of the respondents were from an ethnic group, the Indian. As for the religion category, the findings indicate that 65.7 percent of the total respondents were Muslim. The Buddha and Christian religions constituted at 16.2 percent and 12.0 percent of the respondents respectively, and a quite similar distribution of respondents can also be seen from the Hindu (3.2 percent) and the other (2.9 percent) religions. It appears that the distribution

of the respondents by ethnicity and religion in this study pretty much has a similar pattern to the demographic population of Malaysia. The results interestingly reflect the pattern of ethnic groups and religion composition in Malaysia, in the term of Malay/non-Malay and Muslim/non-Muslim population.

6.2.3 Background of Respondents by Business Function and Professional Qualification

Table 6.3
Background of Respondents by Business Function and Professional Qualification

	Frequency	Percent
Business Function:		
Finance/Accounting/Credit Management	87	23.1
Legal/Internal Audit/Risk Management	60	16.0
Operations/Dealings	79	21.0
Research and Development	20	5.3
Sales/Marketing/Corporate Communication	63	16.8
Treasury/Investment/property Management	55	14.6
Managing Director	12	3.2
Professional Qualification:		
Yes	75	19.9
No	301	80.1

Table 6.3 indicates that 23.1 percent and 21.0 percent of the responding top and middle managers were from finance/accounting/credit management group and operations/dealings group respectively. A quite similar distribution of respondents can also be seen in the sales/marketing/corporate communication group (16.8 percent) and legal/internal audit/risk management group (16.0 percent). Respondents from the research development group and managing director group are only accounted for 5.3 percent and 3.2 percent respectively. Further review on the professional qualification background shows that only 19.9 percent of the total 376 respondents had a professional qualification.

6.2.4 Background of Respondents by Financial Institution and Nationality of the Company

Table 6.4
Background of Respondents by Financial Institution and Nationality of the Company

	Frequency	Percent
Financial Institution:		
Commercial Bank	79	21.0
Investment Bank	54	14.4
Brokerage Firm	40	10.6
Fund Management Company	42	11.2
Insurance/ <i>Takaful</i> Company	67	17.8
Unit Trust Company	46	12.2
Public Fund Organisation	48	12.8
Nationality of the company:		
Malaysian Company	343	91.2
Foreign Company	33	8.8

The data from Table 6.4 illustrates that respondents of the study were classified into seven types of financial institutions. The majority (21.0 percent) of the respondents were from commercial banks followed by about 17.8 percent from the insurance/*takaful* companies. The respondents from unit trust companies and public fund organisation share quite a similar distribution of 12.2 percent and 12.8 percent respectively, while 12.0 percent were from the fund management companies. A slightly lesser number (10.6 percent) were from brokerage firms. A total of 376 respondents have participated in this study, out of which 91.2 percent of them were from the Malaysian companies and only 8.8 percent from foreign companies. Overall, it seems that the composition of the respondents from each company profile does not show any significant difference. Hence, this implies that the sample of this study is quite representative to further analysis and to investigate the perceptions of the managers from financial institutions towards CSR issues and practices in Malaysia. This again indicates that the research is capable for the generalisation of the findings.

This section has provided an analysis of some of the demographic characteristics of the surveyed respondents in this study. An understanding on this background sets the stage for further analysis of the sample, particularly for providing an answer for the research objectives, research questions as well as research hypotheses. On the whole, the analysis of demographic background presents a wide characteristic of the surveyed respondents from gender, age, ethnic groups, religion, working experience and business function. In particular, the respondents of this study almost mirror a similar composition of the ethnicity and religion in Malaysia. It is also noted that the composition of the surveyed respondents delivers fairly proportional among the seven types of financial institutions, which implies the quality of the respondents who should be capable enough to participate in this study and provide reliable responses.

6.3 PRELIMINARY ANALYSIS: RELIABILITY TEST

The high quality of data collected from the questionnaire survey is important in any research to generate high accuracy of results. Preliminary analysis must be carried out to confirm that the data is free from any errors before any further statistical technique is conducted and therefore yield consistent results. One of the most commonly technique used to measure the quality of the data is called, the reliability test. Reliability refers to “a matter of whether a particular technique, applied repeatedly to the same object, would yield the same result each time” (Babbie, 1998, p. 132). In other words, the reliability test is used to evaluate the degree of an internal consistency of the questionnaire items (Sekaran, 2003) as well as the homogeneity of a set of items (Cooper and Schindler, 2003). A number of techniques are available in measuring the reliability of the questionnaire items. The most popular technique is Cronbach’s Alpha coefficient.

The Cronbach's Alpha is computed in terms of the average intercorrelations among the items measuring the concept. The closer the Cronbach's Alpha is to 1, the higher the internal consistency reliability. The value of zero indicates no correlation among the questionnaire items, while the value of one shows a perfect correlation among them. Value of 0.6 or less generally indicates unsatisfactory internal consistency reliability. Ideally, Huck and Cormier (1996) and Pallant (2001) suggest that for a set of items that is to be accepted as having a satisfactory internal consistency reliability, and the Cronbach's Alpha should be greater than 0.7.

The value of Cronbach's Alpha coefficient for all 59 set of items in this study as depicted in Table 6.5 below is approximately 0.9. This value is far exceeding the minimum level of 0.7 as recommended by Huck and Cormier (1996) and Pallant (2001). Therefore, the questionnaire items signify a satisfactory high degree of internal consistency for further statistical analysis.

Table 6.5
Reliability Statistic: Cronbach's Alpha

Cronbach's Alpha	Number of Items
0.891	59

6.4 PERCEPTIONS OF CSR

In this section, the researcher discusses the findings on the perception of top and executive managers in the financial services sector towards various CSR issues in Malaysia. This section seeks to gather information among the financial managers in a way of exploring their awareness and opinion towards CSR. In total, there are sixteen questions that have been divided into two sub-sections. The first two questions have

employed a nominal scale while the others were measured on an interval scale. The researchers will discuss the results based on each of the questions, which was imposed to the respondents.

6.4.1 Managers' Awareness towards CSR

This section presents the awareness of the respondents towards CSR. There are two questions that were imposed to the respondents in order to seek out general information regarding their companies' involvement on CSR. The result is depicted in Table 6.6.

Table 6.6
Managers Awareness towards CSR

Statement	Alternative Answer	N	Percent
1. Does your company have any guidelines and policy on corporate social responsibility	Yes	226	60.1
	No	89	23.7
	Not sure	61	16.2
	Total	376	100
2. How do you perceive the importance of corporate social responsibility in affecting the company's policy in the near future?	CSR will grow in importance to your company	300	79.8
	CSR importance will stay the same	96	18.4
	CSR will become less important to your company	7	1.9
	Total	376	100

The first question asked about the respondents' awareness on whether their companies have policy on CSR. The result from Table 6.6 shows that only 60 percent of the respondents claimed that their companies have CSR policy. Almost 24 percent of the total respondents stated that their companies do not have CSR policy. The remaining 16.2 percent of the respondents were not sure whether their companies have CSR policy or not. This high percentage of respondents under 'no' and 'not sure' categories (40 percent)

gives an indication that the involvement of the financial sector in Malaysia on CSR activities is still at the moderate level. Indeed, this finding supports the previous research done by Ramasamy and Thing (2004) and Prathaban and Abdul Rahim (2005).

Question 2 on the other hand seeks the perceptions of respondents towards the importance of CSR in affecting the companies' policy. The majority of the respondents (79 percent) agreed that CSR will grow in important to their companies. Another 19 percent of the respondents indicated that CSR importance will stay the same, while only 1.8 percent of them believed that CSR will become less important to their companies. This finding is consistent with the earlier result made by Zulkifli and Amran (2006) and Ramasamy et al. (2007). These researchers claim that the public awareness and the concern of business organisations towards CSR in Malaysia are positively growing.

6.4.2 Managers' Perceptions towards CSR

This section provides the views and understanding of top and executive managers towards the various CSR issues. Fourteen statements were included in the questionnaire survey. These statements were measured by using a five point Likert Scale with the following anchor: (1 = Strongly disagree; 2 = Disagree; 3 = Undecided; 4 = Agree; 5 = Strongly agree). Table 6.7 shows top and executive managers' perceptions towards the various CSR issues in Malaysia.

Table 6.7
Managers' Perceptions towards CSR

Statement	Disagree (%)	Undecided (%)	Agree (%)	Mean	Std. Dev.
1. Business can avoid further regulation by adopting social responsibility programmes	32.4	36.4	31.1	2.96	0.998
2. The increasing involvement of business in social responsibility may encourage investment opportunity	5.6	29.5	64.9	3.74	0.771
3. Business should realise that it is part of the larger society and therefore it should respond to social and environmental issues	4.5	12.0	83.6	4.09	0.771
4. Social responsibility and profit maximisation is two conflicting goals	33.8	24.5	41.8	3.12	1.155
5. Contributing to the solution of social problems such as poverty and crime can be profitable	17.3	37.2	45.4	3.35	0.896
6. Voluntary regulation is not sufficient to ensure business involves in social activities	8.8	33.5	57.7	3.62	0.880
7. Business is primarily an economic entity and it is more socially responsible when it attends strictly to its economic interest of generating profits and employment	22.6	29.0	48.4	3.28	1.006
8. Corporate social programmes can help build a favourable image for a business	5.3	9.8	84.8	4.17	0.922
9. A business that ignores social responsibility may have a cost advantage over a business that does not	33.0	42.6	24.5	2.84	0.991
10. It is unfair to ask business to be involved in social responsibly programmes as it is already doing so by complying with social regulations and paying taxation	44.6	37.0	18.4	2.67	1.005
11. Business should integrate social responsibility programmes into organisation policy	5.6	19.7	74.7	3.90	0.805
12. Social involvement may affect the survival of the marginal firm, for the high costs involved may throw it out of business	24.4	43.4	32.2	3.10	0.955
13. Being socially responsible is competitively disadvantages to the business	62.0	28.5	9.5	2.33	0.860
14. Social welfare activities should be left to the government and other non-profit organisations	66.2	16.2	17.6	2.22	1.126

Table 6.7 demonstrates mix responses from managers' perceptions towards statement 1 that "Business can avoid further regulation by adopting social responsibility programmes". About 36.4 percent of the respondents were undecided about the statement, and 31.1 percent agreed that the involvement in CSR activities can avoid further regulation from the government, while 32.4 percent of the respondents disagreed. The mean score for statement 1 is 2.96 and the standard deviation is 0.998. This is however, not a surprising result since there have been much debate among scholar on whether CSR involvement by companies should be required by law or remain as a set of voluntary activities.

Statement 2 investigates the perception of respondents towards CSR involvement and investment opportunity. Approximately 65 percent of the respondent agreed, while only 5.6 percent of them disagreed. Another 29.5 percent of the respondents were undecided. With a mean score of 3.74 and a standard deviation 0.771, this implies that the respondent have agree with the statement "The increasing involvement of business in social responsibility may encourage investment opportunity". This finding maybe explained by the fact that most investors today would want to be associated with a socially responsible firms (Gillis and Spring (2001). For example, Wrighton (2002) claimed that socially responsible investing in the United States represents USD2.3 trillion, which is one out of every eight investments (Gillis and Spring, 2001). In the United Kingdom, the amount money invested in the social responsibility funds is up to GBP3.8 billion (Gillis and Spring, 2001). While in Malaysia, the social responsibility investment is manifested by the establishment of the Islamic equity funds. As at 2004, there are 61 Islamic funds in Malaysia, which amounted for MYR5.32 billion with an 85.4 percent growth rate from 2002 to 2004.

Statement 3 shows that vast majority of the respondents (83.6 percent) have agreed with the statement that “Business should realise that it is part of the larger society and therefore, it should respond to social and environmental issue”. Only 4.5 percent of them disagreed with the statement. A strong consensus is shown by the respondents based on the low standard deviation (0.771) and a high mean score (4.09). This particular result supports the finding made by Fulop, Hisrich and Szegedi (1999) who conducted a study to examine the views of business ethics and corporate social responsibility on among Hungarian managers.

Statement 4 further explores the perceptions of respondents towards the relation between social responsibility and profit maximisation. Surprisingly, Table 6.7 indicates that 41.8 percent of respondents have agreed with the statement that “Social responsibility and profit maximization is two conflicting goals”. Approximately 34 percent of the respondents had disagreed with it, while another 24.5 percent were undecided. The mean score for statement 4 is 3.12 and the standard deviation is 1.155. This finding is consistent with Dusuki (2005) who claim that this particular result is not surprising since there has been a long argument among the scholars towards the nature of business responsibility.

Table 6.7 also reveals that 45.5 percent of the respondents have agreed with statement 5 which is “Contributing to the solution of social problems such as poverty and crime can be profitable”. Another 37.2 percent were undecided, while only 17.3 percent were disagreed. The mean score and the standard deviation for statement 5 is 3.35 and 0.896 respectively. This result implies mix perceptions of respondents on the argument that charitable acts to the society, such as curbing poverty can increase firms’ financial

performance. The finding partially supports the previous studies made by Ford and McLaughlin (1984), Orpen (1987) as well as interview research done by Juholin (2004) who found that the majority of the respondents have agreed with the statement.

Additionally, more than half of the respondents (57.7 percent) have agreed with statement 6 that “Voluntary regulation is not sufficient to ensure business involves in social activities”. About 33.5 percent of the respondents were undecided, while only 8.8 percent were disagreed. With the mean of 3.62 and standard deviation of 0.880, it is predicted that legal requirements is important in order to encourage companies to engage in social responsibility activities. This result is consistent with the Al-Khater and Naser (2003) and Naser and Abu Baker (1999) who argue that lack of legal requirements effects CSR involvements and reporting by companies.

Statement 7 further illustrates that 48.4 percent of the respondents have agreed with the statement “Business is primarily an economic entity and it is more socially responsible when it attends strictly to its economic interest of generating profits and employment”. 29 percent of the respondents were undecided about the statement while 22.6 percent disagreed with the statement. The mean score for statement 7 is 3.28 and the standard deviation is 1.006. Referring to this result, a high value of standard deviation shows that no strong consensus can be made from the result. However, it can be assumed that most of the respondents believe that the main responsibility of the financial organisation is still their economic performance. Surprisingly, this result mirrors the original argument introduced by Milton Friedman. He stated clearly that “Manager is an agent of the individuals who own the corporation or establish the eleemosynary institution, and his primary responsibility is to them” (Friedman, 1970, p. 255). He further argued that the

organisation should only seek to maximise profit as long as it is within the limit of the law and ethical custom (Salazar and Husted, 2008).

Next, statement 8 examines the perceptions of respondents towards the impact of the corporate social programmes on the business image. From Table 6.7, majority of the respondents (84.8 percent) agreed that “Corporate social programmes can help build a favourable image for a business”. Only a small number of respondents (5.3 percent) have disagreed with the statement. With low value of standard deviation (0.922) and high mean score (4.17), this implies in general that a strong agreement has been achieved from the respondents on this statement. This finding is consistent with the result by Rashid and Ibrahim (2002) which confirm the proposition that social responsibility programmes done by the organisations can yield a positive image from target markets and other stakeholders. The good deeds generated by the organisations can build high reputations and positive brand image and able to gain profits in return (Kitchen and Schultz (2002).

On the other hand, statement 9 demonstrates mix views from the respondents towards the issue of a cost advantage over the CSR commitment. Interestingly, 42.6 percent of the respondents were undecided with the statement “A business that ignores social responsibility may have a cost advantage over a business that does not”. 33 percent of the respondents disagreed with the statement compare to 24.5 percent of them who agreed with it. The mean and standard deviation for statement 9 is 2.84 and 0.991 respectively. This result is quite consistent with the study done by Rashid and Ibrahim (2002) although the mean score for this statement is slightly higher in this study. On the other hand, a study done by Ford and McLaughlin (1984) on the chief executive officers (CEO) in the United States found out that majority have disagreed with this statement.

Table 6.7 depicts that 44.6 percent of the respondents have disagreed with the statement “It is unfair to ask business to be involved in social responsibility programmes as it is already doing so by complying with social regulations and paying taxation”. The table also shows that 37 percent of the respondents were undecided about the statement and only 18.4 percent of the respondents have disagreed with this statement. The mean score for statement 10 is 2.67 and the standard deviation is 1.005.

Statement 11 examines the perception of the respondents on the integration of CSR into an organisational policy. From the table, it seems that there is an agreement among the respondents on the issue that “Business should integrate social responsibility programmes into organisational policy”. This conclusion was made based on the fact that 74.7 percent of the respondents agreed with the statement, while only 5.6 percent of them disagreed with it, and the remaining 19.7 percent were undecided. In addition, it has high mean score of 3.9 and low standard deviation of 0.805, which has also confirmed by the consensus.

Table 6.7 also shows another mix consensus among the respondents towards statement 12. The mean score for the statement is 3.10 and the standard deviation is 0.995. Surprisingly, almost one-third of the respondents (32.2 percent) have agreed with the statement “Social involvement may affect the survival of the marginal firm, for the high cost involved may throw it out from business”. Although 24.4 percent of them disagreed with the statement, the largest percentage of the respondents falls under the ‘undecided’ category which is 43.4 percent.

Respondents seemed to have entered a similar agreement towards statement 13 that is “Being socially responsible is competitively disadvantages to the business”. The low value of standard deviation (0.860) is deemed adequate to measure the degree of consensus among the respondents. Referring to the table, 62 percent of the respondents have disagreed with the statement compare to only 9.5 percent that agreed with it and the other 28.5 percent of the respondents were undecided. This implies that, in general respondents perceive CSR activities can produce a competitive advantage to the organisations compare to organisations that do not have any CSR activities. Belch and Belch (2001) posit that competitive advantage of the organisations cannot be developed through advertisement alone, therefore it is essential that CSR programmes should be used to generate a good corporate image. Furthermore, previous research shows a positive influence between CSR and organisational success since consumers prefer to consume the product and services from, and making invest in companies that have engaged in social responsibility activities (Gildea, 1995; Zaman et al., 1996; Singhapakdi et al., 2001).

Last but not least, statement 14 was asked to investigate the perception of the respondents towards the bodies that are responsible for the social welfare activities. Table 6.7 reveals that 66.2 percent of the respondents disagree with the statement “Social welfare activities should be left to the government and other non-profit organisation”. Approximately 18 percent of the respondents agreed with the statement while another 16.2 percent were undecided. The mean score and standard deviation for this statement is 2.22 and 1.126 respectively. This outcome is consistent with the study that was conducted by Dusuki (2005), who has surveyed various stakeholders’ perception on the CSR issues on Islamic banking in Malaysia. In addition, this finding rejects Lewis and Algaud (2001) argument

social welfare programmes that should be left to non-commercial organisation such as the government.

Overall, we can conclude that majority of the top and executive managers in the financial sectors in Malaysia have perceived CSR as an important part of the business organisations' policy. With more than half of the respondents claim that their companies have CSR policy, and it can be argued that CSR involvements among the financial institutions in Malaysia are no longer at an infant stage. This maybe influenced from the various initiatives promoted by the Malaysian government as well as other agencies such as Companies Commission of Malaysia, Bursa Malaysia and Malaysian Accounting Standard Boards (MASB) particularly after the Asian Financial Crisis in 1997/1998. In terms of the understanding of the CSR concept, the results showed a mix consensus among respondents on some statements. Although majority of the respondents believe that business organisations should respond more to social and environmental issues in order to remain competitive and attract investment opportunity (statement 2, 3, 8, 13 and 14), but no strong consensus is obtained especially towards the issues of CSR and cost involvement. A high percentage of disagreement and neutral responses on several statements (statement 4, 5, 7, 9 and 12) clearly represents a moderate level of perceptions of the respondents on CSR issues.

6.5 Managers' Perception towards CSR across Ethnicity Groups

This section reveals the respondents perception towards various statement on CSR issues across the ethnicity groups. There are three main ethnic groups to be studied in this research namely the Malay, Chinese and Indian. Since both culture and ethnicity are expected to reflect on different ideology and perception (Lodge, 1990 and Maignan,

2001), it is assumed that top and executive managers with a different ethnicity in Malaysia can also have different perceptions towards CSR issues. In order to investigate whether ethnicity of the respondents has any significant difference towards CSR issues, Kruskal-Wallis test was applied in this study.

To summarise (as presented in Table 6.8), the results of the Kruskal-Wallis test reveal that, statement 1, 2, 5, 6, 8, 12 and 13 show significant differences on ethnicity of the respondents towards various CSR issues at 0.05 probability level ($p < 0.05$) with 2 degrees of freedom. The significant level of statement 1, 2, 5, 6, 8, 12 and 13 are 0.001, 0.000, 0.025, 0.016, 0.004, 0.026 and 0.001 respectively. On the other hand, there are no significant differences ($p > 0.05$) that can be found on ethnicity of the respondents concerning statement 3 ($p = 0.080$), 4 ($p = 0.055$), 7 ($p = 0.118$), 9 ($p = 0.908$), 10 ($p = 0.054$), 11 ($p = 0.121$) and 14 ($p = 0.212$). Hence, we may accept statement 3, 4, 7, 9, 10, 11 and 14, but reject statement 1, 2, 5, 6, 8, 12 and 13. This finding may suggest that the ethnicity of the respondents might give an impact on their perceptions towards social responsibilities issues in Malaysia across seven out of fourteen statements. To describe the pattern of responses more clearly among ethnicity of the respondents, the means rank of each statement is displayed in Table 6.9.

Table 6.8
Kruskal-Wallis Test: Managers' Perception across Ethnicity Background

Statement	Mean	Std. Dev.	Chi-Square	df	Sig.
1. Business can avoid further regulation by adopting social responsibility programmes	2.96	0.998	14.842	2	0.001
2. The increasing involvement of business in social responsibility may encourage investment opportunity	3.74	0.771	29.110	2	0.000
3. Business should realise that it is part of the larger society and therefore it should respond to social and environmental issues	4.09	0.771	5.059	2	0.080
4. Social responsibility and profit maximisation is two conflicting goals	3.12	1.115	5.804	2	0.055
5. Contributing to the solution of social problems such as poverty and crime can be profitable	3.35	0.896	7.396	2	0.025
6. Voluntary regulation is not sufficient to ensure business involves in social activities	3.62	0.880	8.309	2	0.016
7. Business is primarily an economic entity and it is more socially responsible when it attends strictly to its economic interest of generating profits and employment	3.28	1.006	4.269	2	0.118
8. Corporate social programmes can help build a favourable image for a business	4.17	0.922	11.104	2	0.004
9. A business that ignores social responsibility may have a cost advantage over a business that does not	2.84	0.991	0.193	2	0.908
10. It is unfair to ask business to be involved in social responsibly programmes as it is already doing so by complying with social regulations and paying taxation	2.67	1.005	5.838	2	0.054
11. Business should integrate social responsibility programmes into organisation policy	3.90	0.805	4.217	2	0.121
12. Social involvement may affect the survival of the marginal firm, for the high costs involved may throw it out of business	2.33	0.860	7.272	2	0.026

Statement	Mean	Std. Dev.	Chi-Square	df	Sig.
13. Being socially responsible is competitively disadvantages to the business	2.22	1.126	14.822	2	0.001
14. Social welfare activities should be left to the government and other non-profit organisations	1.41	0.59	3.100	2	0.212

As indicated in the results of Kruss-Wallis Test and mean ranks across ethnicity group (Table 6.9), this study found that ethnicity contributes significant differences on several social responsibility statements. The analysis reveals that each ethnic group stands on a different opinion pertaining to CSR issues. For instance, with the highest mean rank of 232.70, the Indian respondents strongly believed that extra rules and regulation can be avoided if the corporations are involve in social responsibility programmes (statement 1). The Chinese respondents on the other hand, placed the least agreement on the statement (mean rank, 159.15). An inspection of statement 2 and 8 shows that the Malay respondents declare the highest agreement on the issues that social responsibility commitment may encourage the company's investments opportunity and public image. The Indian respondents however, report the least agreement on both of the statements. An analysis on the social responsibility issue of statement 12 reveals that Chinese respondents are the largest ethnic group who believe that contribution towards social activities may not affect the survival of the marginal firms. Additionally, they also claim that CSR is undoubtedly one of the business strategies in achieving any competitive advantages (statement 13). Another examination on the significance result shows that the respondents from Indian ethnicity have ranked statement 5 and 6 higher than the Malay and Chinese respondents. With mean rank of 228.05, the Indian respondents believed that firm's involvement towards social activities is profitable. They also seem to have a strong

agreement on the issue that voluntary regulation alone is not enough to encourage companies to participate in social responsibility programmes.

Table 6.9
Kruskal-Wallis Test: Mean Rank across Ethnicity Groups

Statement	Ethnicity	N	Mean Rank	Result
1. Business can avoid further regulation by adopting social responsibility programmes	Malay	243	198.51	Rejected
	Chinese	113	159.15	
	Indian	20	232.70	
2. The increasing involvement of business in social responsibility may encourage investment opportunity	Malay	243	208.97	Rejected
	Chinese	113	152.56	
	Indian	20	142.80	
3. Business should realise that it is part of the larger society and therefore it should respond to social and environmental issues	Malay	243	184.78	Accepted
	Chinese	113	202.54	
	Indian	20	154.40	
4. Social responsibility and profit maximisation is two conflicting goals	Malay	243	196.45	Accepted
	Chinese	113	168.69	
	Indian	20	203.85	
5. Contributing to the solution of social problems such as poverty and crime can be profitable	Malay	243	193.94	Rejected
	Chinese	113	169.81	
	Indian	20	228.05	
6. Voluntary regulation is not sufficient to ensure business involves in social activities	Malay	243	178.37	Rejected
	Chinese	113	202.41	
	Indian	20	233.00	
7. Business is primarily an economic entity and it is more socially responsible when it attends strictly to its economic interest of generating profits and employment	Malay	243	195.51	Accepted
	Chinese	113	179.61	
	Indian	20	153.50	
8. Corporate social programmes can help build a favourable image for a business	Malay	243	198.17	Rejected
	Chinese	113	178.72	
	Indian	20	126.30	
9. A business that ignores social responsibility may have a cost advantage over a business that does not	Malay	243	188.66	Accepted
	Chinese	113	186.56	
	Indian	20	197.50	
10. It is unfair to ask business to be involved in social responsibly programmes as it is already doing so by complying with social regulations and paying taxation	Malay	243	197.81	Accepted
	Chinese	113	173.55	
	Indian	20	159.90	

Statement	Ethnicity	N	Mean Rank	Result
11. Business should integrate social responsibility programmes into organisation policy	Malay	243	187.19	Accepted
	Chinese	113	198.20	
	Indian	20	149.65	
12. Social involvement may affect the survival of the marginal firm, for the high costs involved may throw it out of business	Malay	243	198.75	Rejected
	Chinese	113	167.29	
	Indian	20	183.80	
13. Being socially responsible is competitively disadvantages to the business	Malay	243	195.59	Rejected
	Chinese	113	163.03	
	Indian	20	246.30	
14. Social welfare activities should be left to the government and other non-profit organisations	Malay	243	181.53	Accepted
	Chinese	113	201.90	
	Indian	20	197.40	

6.6 FACTOR ANALYSIS: DRIVERS OF CSR IN FINANCIAL SECTOR

Factor analysis is a data reduction technique (Pallant, 2001) that was used to reduce a large number of variables into a smaller set of underlying factors that summarise the essential information that was contained in the variables. More frequently, factor analysis is used as an exploratory technique when the researcher wishes to summarise the structure of a set of variables (Coakes and Steed, 2003). According to Pallant (2001), there are two issues that need to be concentrated by any researcher before running the variables into a factor analysis. There are the sample size of the study and the strength of the inter-correlation among the variables (Pallant, 2001). Tabachnick and Fidel (2001) claim that the correlation coefficients tend to be less reliable when an estimate was made from a small sample.

There are two statistical measures that could assist in the factorability of data namely Bartlett's test of sphericity and Kaiser-Meyer-Olkin (KMO) measure of the sampling adequacy (Kaiser, 1974). The Bartlett's test of sphericity should be significant ($p < 0.05$)

for the factor analysis to be considered as appropriate. The KMO index ranges from 0 to 1, with 0.6 that was suggested as the minimum value for a good factor analysis (Tabachnick and Fidell, 1996). In another direct assessment, Coakes and Steed (2003), value of KMO with 0.5 and above are acceptable while KMO below 0.5 is unacceptable. On the other hand, the factor extraction involves in determining the smallest number of factors that can be used to represent the inter-relations among the set of variables (Pallant, 2001). It depends on the researcher to decide the number of factors that best describes the underlying relationship among the variables.

Generally, there are two techniques that can be used when determining the number of factors to retain; (i) Kaiser's criterion and, (ii) Catell's scree test. Kaiser criterion is one of the most commonly used techniques whereby only factors with an eigenvalue of 1.0 or more are retained for further investigation. Kaiser's criterion has been criticized however, as resulting in the retention of too many factors in some situation (Pallant, 2001). Another available approach is the Catell's scree test (Catell, 1966). This procedure involves in plotting each of the eigenvalues of the factors and later inspecting the plot to find a point at which the shape of the curve changes direction and becomes horizontal. Catell also recommends in retaining all factors above the elbow, or break in the plot as these factors contribute the most to the explanation of the variance in the data set. Table 6.10 presents the results of the statistical tests which support the use of factor analysis. This table shows the KMO for the 11 combined items of CSR drivers in the financial sectors. The value of 0.691 reveals that all measures of sampling adequacy are well above an acceptable level of 0.50 (Coakes and Steed, 2003). The Bartlett's Test of Sphericity also reaches a statistical significance of 0.00 ($p < 0.05$) with 55 degree of freedom. Therefore, further factor analysis on all items is recommended.

Table 6.10
KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		0.691
Bartlett's Test of Sphericity	Approx. Chi-Square	1208.437
	df	55.000
	Sig.	0.000

The 11 items of CSR drivers among managers in financial sectors in Malaysia will then be subjected to principal component analysis (PCA) and varimax rotation with the Kaiser Normalisation. The PCA is concerned with specifying a number of factors to account for the maximum amount of variance in the data. The PCA with a greater than 1.0 is regarded as significant and can be used to determine the factors that are to be extracted (Pallant 2001). An eigenvalue is a statistic that relates to a factor which indicates the amount of variance in the pool of initial items which a particular factor is explained (Vaus, 2002). Table 6.11 reveals that there are four factors with an eigenvalue that is greater than 1.0. These four factors are accounted for 67.40 percent of variance. Each factor explains a particular amount of variance in the items. Factor 1 explains 29.96 percent, Factor 2 explains 17.40 percent, Factor 3 explains 10.54 percent and Factor 4 explains 9.51 percent of the total variance.

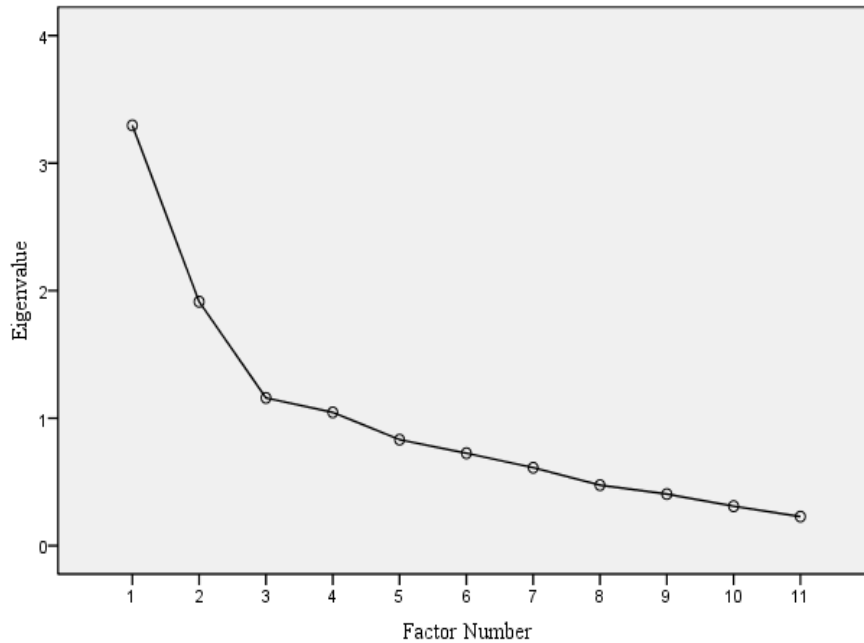
Table 6.11
Total Variance Explained

Factor	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.296	29.961	29.961	3.296	29.961	29.961
2	1.913	17.394	47.355	1.913	17.394	47.355
3	1.159	10.535	57.890	1.159	10.535	57.890
4	1.046	9.505	67.395	1.046	9.505	67.395
5	0.832	7.559	74.955			
6	0.726	6.596	81.550			
7	0.612	5.561	87.111			
8	0.475	4.318	91.429			
9	0.405	3.680	95.110			
10	0.310	2.816	97.925			
11	0.228	2.075	100.000			

Extraction Method: Principal Axis Factoring.

Another technique that can be used to make a decision on retaining the number of factors is called Catell's scree plot. This technique concerns with the plotting of the eigenvalues of the factors, which the shape of the curve changes direction and becomes horizontal (Pallant, 2001). It is recommended to retain all factors above the elbow or break in the plot as these factors contribute the most explanation for the collected data (Catell, 1966). In this study, an inspection of the scree plot (see Figure 6.1) indicates a break between the steep slope on the large factors and the gradual straightening on the rest of the factors at the 4 factors. Therefore, in the opinion of the researcher, adapting the Catell's (1966) scree test as suggested by Pallant (2001) would also provide meaningful analysis.

Figure 6.1
Scree Plot



The rotated solution (shown in Table 6.12) discovered the presence of simple structure with the 4 factors showing a number of strong loadings. In order to ensure that only the significant loadings are considered, the variables for any particular factor are chosen only when the absolute size of their factor loading is above 0.3 (Vaus, 2002; Coakes and Steed, 2003). According to Vaus (2002), the higher the loading, the more that variable (items) belongs to that factor. The 4-factor solution which is based on the loading of the 11 variables were represented by Factor 1 (local and global forces), Factor 2 (corporate image), Factor 3 (economic performance) and Factor 4 (cultural awareness). These factors indicate the main drivers behind CSR involvement by the financial sectors in Malaysia.

Table 6.12
Rotated Component Matrix on Drivers of CSR in Financial Sector

Variable	Factor			
	1 Local & Global Forces	2 Corporate Image	3 Economic Performance	4 Cultural Awareness
Government pressure	0.839			
Global pressure	0.776			
Pressure from special interest groups	0.702			
Pressure of general public opinion	0.633			
Enhance reputation and public image		0.899		
Enhance community trust and support		0.884		
Profitability of the venture			0.849	
Strategy for competitive advantage			0.629	
Religious responsibility				0.719
Matching of social needs to corporate skill, need or ability to help				0.702
Personal ethical and cultural tradition				0.666

Extraction Method: Principal Axis Factoring.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 5 iterations.

Factor 1 which measures the *local and global forces* encompasses of ‘government pressure’, ‘pressure from special interest groups’, ‘pressure of general public opinion’ and ‘global pressure’. With the highest percentage of variance (29.96 percent), this factor is considered to be the most important drivers perceived by the managers to support CSR involvement on the financial sectors in Malaysia. The second important driver is the *corporate image* which includes ‘enhance community trust and support’ and ‘enhance reputation and public image’. This factor contributes 17.40 percent of the total variance. The third driver is *economic performance* which involves ‘profitability of the venture’ and ‘strategy for competitive advantage’. This factor contributes 10.54 percent variance. With almost 10 percent of total variance, Factor 4, *cultural awareness*, is claimed to be

the least important CSR drivers by managers in financial sectors in Malaysia. Factor 4 consists of ‘personal ethical and cultural tradition’, ‘religious responsibility’ and ‘matching of social needs to corporate skill, need or ability to help’. The result from the exploratory factor analysis suggests that top and executive managers in financial sectors in Malaysia placed the non-economic elements as the main drivers in promoting CSR involvement among the Malaysian corporations. The findings also provide a better insight on how managers in the Malaysian financial sectors are motivated in engaging with the social responsibility activities.

6.6.1 CSR Drivers in Financial Sectors across Respondents’ Characteristics

The previous section clearly demonstrates a collective response from managers in financial sectors in Malaysia towards the drivers for CSR. However, it is important to note that each respondent is not homogenous as they personify a different demographic profile such as gender, age, ethnic groups, religion and working experience. For this reason, the Kruskal-Wallis Test and Mann-Whitney U Test were employed to inspect whether different respondents’ characteristics have different perception towards drivers for CSR. The following subsections will provide a spectrum of responses between the respondents’ characteristics and CSR drivers.

6.6.1.1 Comparative Analysis between CSR Drivers and Company's Profile

Table 6.13
Kruskal-Wallis Test between CSR Drivers and Company's Profile

CSR Driver	Company's Profile	N	Mean Rank	Chi-Square	df	Asymp. Sig.
Local & Global Forces	Commercial bank	79	206.82	29.848	6	0.000
	Investment bank	54	144.65			
	Brokerage	40	177.08			
	Fund management	42	234.43			
	Insurance/Takaful	67	152.75			
	Unit trust	46	206.37			
	Large public fund	48	209.78			
Corporate Image	Commercial bank	79	224.47	17.844	6	0.007
	Investment bank	54	181.63			
	Brokerage	40	168.95			
	Fund management	42	200.93			
	Insurance/Takaful	67	190.58			
	Unit trust	46	162.59			
	Large public fund	48	164.38			
Economic Performance	Commercial bank	79	217.80	18.344	6	0.005
	Investment bank	54	180.78			
	Brokerage	40	145.32			
	Fund management	42	191.52			
	Insurance/Takaful	67	166.63			
	Unit trust	46	188.02			
	Large public fund	48	213.28			
Cultural Awareness	Commercial bank	79	209.80	20.767	6	0.002
	Investment bank	54	167.02			
	Brokerage	40	159.30			
	Fund management	42	199.98			
	Insurance/Takaful	67	178.93			
	Unit trust	46	159.72			
	Large public fund	48	232.85			

Table 6.13 displays a comparative analysis between CSR drivers and the company's profile. The results from Kruskal-Wallis Test show that managers working in different financial institutions expressed difference perceptions pertaining to all the elements of CSR drivers. This is statistically supported by a lower significant level at $p < 0.05$ and 6 degree of freedom. As may be seen, the chi-square values (χ^2) of all variables are fall between 17.844 and 29.848. An analysis on the mean rank section reveals that the commercial bank was at the top position of three out of four variables, namely, *local and global forces* (206.82), *corporate image* (224.47), and *economic performance* (217.80).

On the other hand, with a mean rank of 232.85, large public fund placed the *cultural awareness* variable as the most important drivers for CSR, followed by commercial bank (209.80).

6.6.1.2 Comparative Analysis between CSR Drivers and Ethnicity

Table 6.14
Kruskal-Wallis Test between CSR Drivers and Ethnicity

CSR Driver	Ethnicity	N	Mean Rank	Chi-Square	df	Asymp. Sig.
Local & Global Forces	Malay	243	198.53	13.471	2	0.001
	Chinese	113	159.40			
	Indian	20	231.00			
Corporate Image	Malay	243	187.07	0.252	2	0.882
	Chinese	113	189.85			
	Indian	20	198.30			
Economic Performance	Malay	243	204.01	17.340	2	0.000
	Chinese	113	153.75			
	Indian	20	196.35			
Cultural Awareness	Malay	243	208.99	25.093	2	0.000
	Chinese	113	151.80			
	Indian	20	146.90			

The results shown in Table 6.14 demonstrates that the Malay, Chinese and Indian respondents were significantly difference in their perception towards the three variables of CSR drivers, namely, *local and global forces* ($p = 0.001$), *economic performance* ($p = 0.000$) and *cultural awareness* ($p = 0.000$). The overall chi-square values (χ^2) for those variables are between 13.471 and 25.093. It may be seen, for the *Corporate Image* variable, a chi-square value (χ^2) of 0.25 with 2 degree of freedom is not significant at 0.882 probability level ($p > 0.05$). The mean rank column shows that respondents from the Indian ethnic group have perceived *local and global forces* variable to be the most important driver for CSR, than the Malay and Chinese respondents. On the other side, Malay ethnic group were placed at the highest mean rank on both *economic performance* and *cultural awareness* variables, with the value of 204.01 and 208.99 respectively. The

Malay respondents perceived that both economic and *cultural* factors are the most important motivators to encourage the financial corporation to subscribe in social responsibility activities.

6.6.1.3 Comparative Analysis between CSR Drivers and Religion

Table 6.15
Kruskal-Wallis Test between CSR Drivers and Religion

CSR Driver	Religion	N	Mean Rank	Chi-Square	df	Asymp. Sig.
Local & Global Forces	Islam	247	200.79	21.885	4	0.000
	Buddha	61	170.49			
	Hindu	12	229.17			
	Christian	45	127.48			
	Others	11	217.64			
Corporate Image	Islam	247	186.64	1.195	4	0.879
	Buddha	61	184.30			
	Hindu	12	212.67			
	Christian	45	195.01			
	Others	11	200.50			
Economic Performance	Islam	247	203.72	26.102	4	0.000
	Buddha	61	160.93			
	Hindu	12	245.08			
	Christian	45	130.51			
	Others	11	175.05			
Cultural Awareness	Islam	247	208.47	29.051	4	0.000
	Buddha	61	159.80			
	Hindu	12	191.83			
	Christian	45	129.98			
	Others	11	135.05			

As demonstrated in Table 6.15, a similar pattern is reported on the perception between the respondents' religion towards CSR drivers as before. Respondents with different religion expressed significant differences in their opinion on *local and global forces*, *economic performance* and *cultural awareness* variables. Statistically, the significance level for the three variables are at 0.000 probability level ($p < 0.05$) with a four degree of freedom and chi-square value (χ^2) span from 21.885 to 29.051. An observation on the mean rank section shows that the Hindu respondents are more concerned with

globalisation and market forces (229.17) and *economic performance* (245.08) variables, while the Muslim respondents placed the highest mean rank for the *cultural awareness* variable with 208.47. Apparently, the Christian respondents scored the lowest mean rank for these three variables (127.48, 130.51 and 129.98 respectively).

6.6.1.4 Comparative Analysis between CSR Drivers and Age, Working Experience and Business Function

Table 6.16
Kruskal-Wallis Test between CSR Driver 1 (Globalisation & Market Forces) and Age, Working Experience and Business Function

CSR Driver 1	Characteristics	N	Mean Rank	Chi-Square	Asymp. Sig.
Local & Global Forces	Age:				
	30 years and below	39	208.32	20.459	0.000
	31 - 40 years	139	216.65		
	41 - 50 years	136	166.26		
	51 years and above	62	161.70		
	Working Experience:				
	5 years and below	31	189.85	21.092	0.000
	6 - 10 years	55	214.59		
	11 - 15 years	80	223.36		
	16 - 20 years	82	181.34		
	More than 21 years	128	159.76		
	Business Function:				
	Finance/Accounting/Credit Management	87	170.09	11.240	0.081
	Legal/Internal Audit/Risk Management	60	203.38		
	Operations/Dealings	79	175.42		
Research and Development	20	164.72			
Sales/Marketing/Corporate Communication	63	202.18			
Treasury/Investment/property Management	55	217.49			
Managing Director	12	168.58			

The results from Table 6.16 illustrate that respondent with different age and working experience significantly had difference perceptions towards *local and global forces* as driver of CSR within the financial sectors in Malaysia. The reported significant level for both categories is $p = 0.000$, which is lower than the 0.05 probability level. A further

investigation on the mean rank column reveals that the respondents with an age group below 40 years old and working experience less than 15 years are likely to rate *local and global forces* variable as the more important driver for CSR compared to the senior respondents.

Table 6.17
Kruskal-Wallis Test between CSR Driver 2 (Corporate Image) and Age, Working Experience and Business Function

CSR Driver 2	Characteristics	N	Mean Rank	Chi-Square	Asymp. Sig.
Corporate Image	Age:				
	30 years and below	39	204.45	1.713	0.634
	31 - 40 years	139	182.50		
	41 - 50 years	136	187.08		
	51 years and above	62	195.02		
	Working Experience:				
	5 years and below	31	180.79	8.087	0.088
	6 - 10 years	55	186.30		
	11 - 15 years	80	189.72		
	16 - 20 years	82	165.12		
	More than 21 years	128	205.52		
	Business Function:				
	Finance/Accounting/Credit Management	87	175.20	20.731	0.002
Legal/Internal Audit/Risk Management	60	177.62			
Operations/Dealings	79	232.20			
Research and Development	20	155.95			
Sales/Marketing/Corporate Communication	63	176.31			
Treasury/Investment/property Management	55	179.17			
Managing Director	12	212.67			

Table 6.17 reveals that only the respondents from business function characteristic shows significant difference in their perceptions towards *corporate image* variable as driver for CSR in financial sectors in Malaysia. This is supported by a lower significant level of 0.002 ($p < 0.05$) and a chi-square value (χ^2) of 20.731. In contrast, the observe significant level for age and working experience groups are higher than 0.05 probability level, which implies no variation of the respondents in their perception concerning this variable. From

the mean rank section, the results show that respondents who are responsible with the operations/dealing function, together with managing directors of the companies have scored this variable more than those from the others business functions.

Table 6.18
Kruskal-Wallis Test between CSR Driver 3 (Economic Performance) and Age, Working Experience and Business Function

CSR Driver 3	Characteristics	N	Mean Rank	Chi-Square	Asymp. Sig.
Economic Performance	Age:				
	30 years and below	39	182.62	21.422	0.000
	31 - 40 years	139	200.97		
	41 - 50 years	136	202.79		
	51 years and above	62	132.90		
	Working Experience:				
	5 years and below	31	162.19	10.688	0.030
	6 - 10 years	55	227.31		
	11 - 15 years	80	193.37		
	16 - 20 years	82	177.87		
	More than 21 years	128	181.96		
	Business Function:				
	Finance/Accounting/Credit Management	87	164.33	12.224	0.057
Legal/Internal Audit/Risk Management	60	205.82			
Operations/Dealings	79	185.22			
Research and Development	20	215.15			
Sales/Marketing/Corporate Communication	63	184.88			
Treasury/Investment/property Management	55	214.84			
Managing Director	12	152.58			

As shown in Table 6.18, the significant difference of perception among the respondents towards *economic performance* variable as CSR driver only exists for the age and working experience groups. Statistically, the significance level for both groups is 0.000 and 0.030 ($p < 0.05$). An analysis of the mean rank column proves that the respondents between 31 to 50 years of age and respondents with 6 to 15 years working experiences are among those who placed *economic performance* to be the highest driver for CSR, more than the rest of the group.

Table 6.19
Kruskal-Wallis Test between CSR Driver 4 (Social Awareness) and Age, Working Experience and Business Function

CSR Driver 4	Characteristics	N	Mean Rank	Chi-Square	Asymp. Sig.
Cultural Awareness	Age:				
	30 years and below	39	171.54	15.814	0.001
	31 - 40 years	139	212.26		
	41 - 50 years	136	186.63		
	51 years and above	62	150.00		
	Working Experience:				
	5 years and below	31	162.08	14.299	0.006
	6 - 10 years	55	218.54		
	11 - 15 years	80	213.74		
	16 - 20 years	82	169.73		
	More than 21 years	128	178.24		
	Business Function:				
	Finance/Accounting/Credit Management	87	183.43	11.840	0.066
Legal/Internal Audit/Risk Management	60	157.68			
Operations/Dealings	79	203.25			
Research and Development	20	190.05			
Sales/Marketing/Corporate Communication	63	216.71			
Treasury/Investment/property Management	55	181.29			
Managing Director	12	164.67			

Again, Table 6.19 demonstrates a similar pattern of respondents' perceptions towards the CSR driver, *cultural awareness*. The computed significant level for age and working experience groups is 0.001 and 0.006 respectively, which is lower than the 0.05 probability level. It may be seen that, the chi-square value (χ^2) for both groups are 15.814 and 14.299 respectively. An observation into the mean rank column indicates that the respondents between 31 to 50 years of age and respondents with 6 to 15 years working experiences had significantly difference perceptions towards *cultural awareness* variable as the drivers for CSR in financial services sector in Malaysia.

6.6.1.5 Comparative Analysis between CSR Drivers and Gender and Nationality of the Company

Table 6.20 provides a comparative analysis between CSR drivers and gender and also the nationality of the company. The results from Mann-Whitney U Test reveal that there are significant disagreements among gender and nationality of the company pertaining to two out of four variables of CSR drivers in financial services sector in Malaysia. *Corporate image* variable for instance, had demonstrated a low significant level at $p < 0.05$ for both gender (0.000) and nationality of the company (0.011) implying that these groups of respondents are more likely to hold a difference perception in the population. An analysis of the mean rank column shows that male respondents and foreign company (200.26 and 231.50 respectively) have scored *corporate image* variable as the most important drivers of CSR in financial services sector. The Mann-Whitney U Test from the table also reveals that the nationality of the company had a significance disagreement towards the *economic performance* variable as CSR driver. This proposition is supported by a lower significant level of 0.014 ($p < 0.05$) and z value of -2.468. In terms of mean rank, the Malaysian company have placed *economic performance* as the more important variable for CSR driver than any of the foreign company. In contrast, gender of the respondents shows no difference in their perception when concerning this variable. The other CSR drivers, *local and global forces* and *cultural awareness* variables show no difference in perception among both gender and nationality of the company groups.

Table 6.20
Mann-Whitney U Test between CSR Drivers and Gender and Nationality of the Company

CSR Driver	Characteristics	N	Mean Rank	Z	Asymp. Sig.
Local & Global Forces	Gender: Male	271	184.01	-1.297	0.195
	Female	105	200.08		
	Nationality of the company: Malaysian company	343	188.91	-0.239	0.811
	Foreign company	33	184.21		
Corporate Image	Gender: Male	271	200.26	-3.592	0.000
	Female	105	158.15		
	Nationality of the company: Malaysian company	343	184.36	-2.536	0.011
	Foreign company	33	231.50		
Economic Performance	Gender: Male	271	193.68	-1.517	0.129
	Female	105	175.13		
	Nationality of the company: Malaysian company	343	192.70	-2.468	0.014
	Foreign company	33	144.85		
Cultural Awareness	Gender: Male	271	192.09	-1.043	0.297
	Female	105	179.23		
	Nationality of the company: Malaysian company	343	189.58	-0.632	0.527
	Foreign company	33	177.23		

6.7 CSR COMMITMENT IN FINANCIAL SECTOR IN MALAYSIA

This section analyses the findings on the perception of top and executive managers regarding CSR commitment by the financial services sector in Malaysia. In total, there are seventeen statements of CSR commitment by the business corporations. Those statements were measure on the interval method with the five Likert scale (from 1 to 5). On this scale, 1 represent strongly disagree while 5 represents strongly agree. Table 6.21 presents the results of CSR commitment ranking in the financial services sector in Malaysia.

Table 6.21
Friedman Test to Rank CSR Commitment in Financial Sector in Malaysia

Statement	Mean	Std. Deviation	Mean Rank	Ranking
Public education programmes	4.16	0.926	11.85	1
Employee welfare and training programmes	4.13	0.741	11.72	2
Public health and safety	4.07	0.893	11.49	3
Quality of work life programmes	4.02	0.811	11.07	4
Pollution control	3.94	0.983	10.56	5
Environmental protection law	3.86	0.958	10.30	6
Consumer protection laws/welfare	3.78	0.856	9.97	7
Charitable and philanthropic activities	3.78	0.909	9.66	8
Handicap hiring and training	3.68	0.920	9.33	9
Ethical/cultural values	3.62	0.935	9.19	10
Community renewal and revitalisation	3.60	0.874	8.90	11
Religious practices	3.48	1.164	8.45	12
Ethnic groups business support	3.25	0.935	7.29	13
Ethnic groups hiring and training	3.23	0.943	7.23	14
Arts and cultural activities	2.99	1.037	5.96	15
Building and ground beautification	2.88	0.914	5.39	16
Political action committees	2.59	1.042	4.64	17

A Friedman Test indicates that six of the twenty statements have produced mean rank of more than 10.00. The respondents ranked *public education programmes* as the most important social responsibility commitment. This result supports the argument that was proposed by Chapple and Moon (2005). They contended that although different countries in Asia focused on different aspect of CSR, but most of the business corporations are operating in developing countries such as Malaysia, to emphasis more on community involvement. The *employee welfare and training programmes* and *public health and safety* were ranked second and third, respectively. The results support most of the previous CSR studies done in Malaysia by Teoh and Tong (1985), Kin (1990), MACPA (1998), Che Zurina et al. (2001), Hanim and Mustafa (2001) and Hamid et al. (2003) and

Hamid et al. (2007). This is clear evidence that, in Malaysia, the company's commitment towards the public's welfare, education and health, and employees' welfare and training are considered as a very important aspect of CSR. In contrast, with a mean ranked of less than 6.0, *arts and cultural activities*, *building and ground beautification* and *political action committees* were the least three CSR commitment perceived by the top and executive managers in financial sectors.

6.8 FACTOR ANALYSIS: CSR COMMITMENTS IN FINANCIAL SECTOR

As discuss previously, the factor analysis is used to reduce a large number of variables into a smaller set of underlying factor that summarises the essential information that was contained in the variables. In this section, factor analysis is used as an exploratory technique to summarise the 17 items of a set of CSR commitments (variables). There are two statistical measures that could assist in the factorability of the CSR commitments namely, Bartlett's test of sphericity and Kaiser-Meyer-Olkin (KMO). The Bartlett's test of sphericity should be significant ($p < 0.05$) for the factor analysis to be considered appropriate, while the KMO index ranges from 0 to 1, with 0.6 suggested as the minimum value for a good factor analysis (Tabachnick and Fidell, 1996).

Table 6.22 presents the results of the statistical tests which support the use of factor analysis. This table shows the KMO for the 17 combined items of CSR commitments in financial sectors. The value of 0.848 reveals that all measures of the sampling adequacy are well above an acceptable level of 0.50 (Kaiser, 1974; Coakes and Steed, 2003). The Bartlett's Test of Sphericity also reaches a statistical significance 0.00 ($p < 0.05$) with 136 degree of freedom. Therefore, a further factor analysis on all items is recommended.

Table 6.22
KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		0.848
Bartlett's Test of Sphericity	Approx. Chi-Square	3003.849
	Df	136.000
	Sig.	0.000

The 17 items of perceived CSR commitments among the managers in financial sectors in Malaysia will then be subjected to a principal component analysis (PCA) and varimax rotation with the Kaiser Normalisation. The PCA is concerned in specifying a number of factors to account for the maximum amount of variance in the data. The PCA with greater than 1.0 is regarded as significant and can be used to determine the factors that are to be extracted (Pallant 2001). An eigenvalue is also a statistic that relates to a factor which indicates the amount of variance in the pool of initial items which explain that particular factor (Vaus, 2002). Table 6.23 reveals that there are three factors with an eigenvalue that is greater than 1.0. These four factors accounted for 56.70 percent of variance. Each factor explains a particular amount of variance in the items. Factor 1 explains 36.27 percent, Factor 2 explains 12.70 percent, and Factor 3 explains 7.72 percent of the total variance.

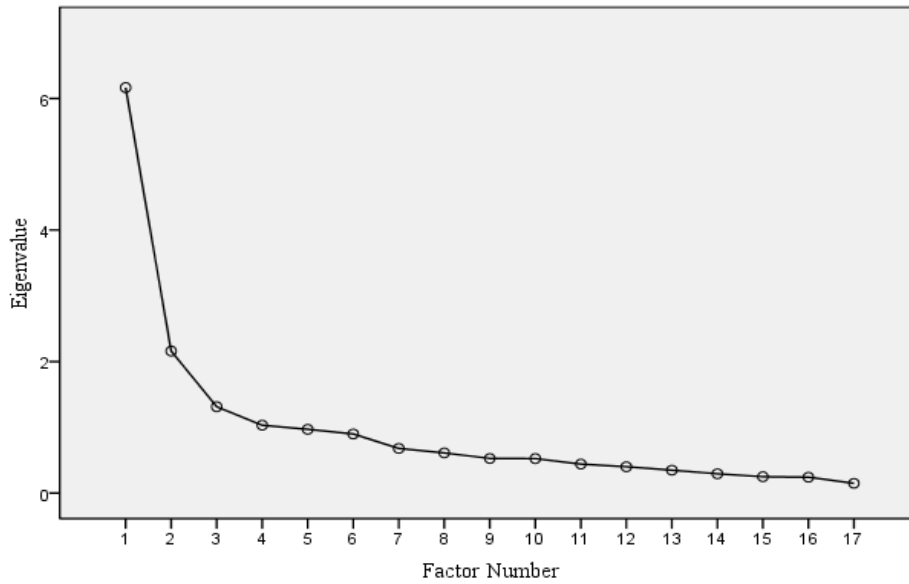
Table 6.23
Total Variance Explained

Factor	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	6.166	36.272	36.272	6.166	36.272	36.272
2	2.160	12.703	48.975	2.160	12.703	48.975
3	1.313	7.722	56.697	1.313	7.722	56.697
4	1.032	6.070	62.767			
5	.969	5.701	68.468			
6	.898	5.285	73.753			
7	.679	3.993	77.746			
8	.611	3.593	81.339			
9	.527	3.097	84.437			
10	.524	3.085	87.522			
11	.441	2.594	90.116			
12	.401	2.357	92.472			
13	.348	2.049	94.521			
14	.293	1.726	96.247			
15	.249	1.463	97.710			
16	.242	1.421	99.130			
17	.148	.870	100.000			

Extraction Method: Principal Axis Factoring.

Another technique that can be used to make a decision on retaining the number of factors is called Catell's scree plot. It is recommended to retain all factors above the elbow or break in the plot as these factors contribute the most explanation for the collected data (Catell, 1966). In this study, an inspection of the scree plot (see Figure 6.2) indicates a break between the steep slope on the large factors and the gradual straightening on the rest of the factors at the 3 factors. Therefore, in the opinion of the researcher, adapting Catell's (1966) scree test as suggested by Pallant (2001) would also provide a more meaningful analysis.

Figure 6.2
Scree Plot



The rotated solution (shown in Table 6.24) has discovered the presence of a simple structure with the 3 factors showing a number of strong loadings. According to Vaus (2002) and Coakes and Steed (2003), to ensure that only significant loadings are considered, the variables for any particular factor are chosen only when the absolute size of their factor loading is above 0.3. The 3-factor solution which is based on the loading of the 17 items is represented by Factor 1 (community and environment), Factor 2 (cultural diversity), and Factor 3 (philanthropy). These factors indicate the most important CSR commitments by the financial sectors in Malaysia.

Table 6.24
Rotated Component Matrix on CSR Commitments in Financial Sectors

Variable	Factor		
	1 Community & Environment	2 Cultural Diversity	3 Philanthropy
Quality of work life programmes	0.790		
Public education programmes	0.784		
Pollution control	0.774		
Public health and safety	0.726		
Environmental protection law	0.687		
Employee welfare and training programmes	0.632		
Consumer protection laws/welfare	0.513		
Ethical/cultural values	0.476		
Ethnic groups hiring and training		0.841	
Political action committees		0.786	
Ethnic groups business support		0.786	
Religious practices		0.489	
Building and ground beautification			0.798
Arts and cultural activities			0.769
Community renewal and revitalisation			0.525
Handicap hiring and training			0.505
Charitable and philanthropic activities			0.453

Extraction Method: Principal Axis Factoring.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 5 iterations.

Factor 1 which measures *community and environment* encompasses of eight items namely ‘quality of work life programmes’, ‘public education programmes’, ‘pollution control’, ‘public health and safety’, ‘environmental protection law’, ‘employee welfare and training programmes’, ‘consumer protection laws/welfare’ and ‘ethical/cultural values’. With the highest percentage of variance (36.27 percent), this factor is considered as the most important CSR commitments perceived by the top and executive managers in

the financial sectors in Malaysia. The second important commitment is *cultural diversity* which includes ‘ethnic groups hiring and training’, ‘political action committees’, ‘ethnic groups business support’ and ‘religious practices’. This factor contributes 12.70 percent of the total variance. With a 7.72 percent of total variance, Factor 3, *philanthropy* is claimed to be the least important CSR commitment perceived by managers in the financial sectors in Malaysia. Factor 3 consists of ‘building and ground beautification’, ‘arts and cultural activities’, ‘community renewal and revitalisation’, ‘handicap hiring and training’ and ‘charitable and philanthropic activities’. The result from this exploratory factor analysis suggests that managers in the financial sectors in Malaysia have placed community and environmental issues as the main obligation for the Malaysian corporations in promoting CSR involvement.

6.8.1 CSR Commitments in Financial Sectors across Respondents' Characteristics

6.8.1.1 Comparative Analysis between CSR Commitments and Company's Profile

Table 6.25
Kruskal-Wallis Test between CSR Commitments and Company's Profile

CSR Commitment	Company's Profile	N	Mean Rank	Chi-Square	df	Asymp. Sig.
Community & Environment	Commercial bank	79	208.25	14.178	6	0.028
	Investment bank	54	165.15			
	Brokerage	40	189.72			
	Fund management	42	201.83			
	Insurance/ <i>Takaful</i>	67	184.80			
	Unit trust	46	149.30			
	Large public fund	48	212.30			
	Commercial bank	79	196.28			
Investment bank	54	155.37				
Brokerage	40	170.48				
Fund management	42	210.98				
Insurance/ <i>Takaful</i>	67	138.34				
Unit trust	46	216.93				
Large public fund	48	251.08				
Philanthropy	Commercial bank	79	207.11	10.812	6	0.094
	Investment bank	54	166.54			
	Brokerage	40	175.68			
	Fund management	42	177.95			
	Insurance/ <i>Takaful</i>	67	207.66			
	Unit trust	46	162.85			
	Large public fund	48	200.33			

Table 6.25 demonstrates a comparative analysis between CSR commitment and the company's profile. Statistical results from Kruskal-Wallis Test show that managers working in different financial institutions have expressed different perception towards the two elements of CSR commitments, namely, *community and environment* and *cultural diversity*. The reported significant levels for both elements are 0.028 and 0.000 respectively, which is lower than the 0.05 probability level. An analysis on the mean rank section reveals that the large public fund organisations were placed at the top position on both *community and environment* (212.30) and *cultural diversity* (251.08) commitments. On the contrary, unit trust companies have scored the lowest mean rank for *community and environment* (149.30), while the insurance and *takaful* companies placed *cultural*

diversity (138.34) as their least important commitment of CSR. It may be seen that, for *philanthropy* commitment, a chi-square value (χ^2) of 10.812 with 6 degree of freedom is not significant at a 0.094 probability level ($p > 0.05$). In other words, the respondents in various financial institutions show no difference in their opinions concerning the *philanthropy* commitment.

6.8.1.2 Comparative Analysis between CSR Commitments and Ethnicity

Table 6.26
Kruskal-Wallis Test between CSR Commitments and Ethnicity

CSR Commitment	Ethnicity	N	Mean Rank	Chi-Square	df	Asymp. Sig.
Community & Environment	Malay	243	191.06	2.077	2	0.354
	Chinese	113	188.97			
	Indian	20	154.75			
Cultural Diversity	Malay	243	209.21	25.309	2	0.000
	Chinese	113	149.37			
	Indian	20	157.95			
Philanthropy	Malay	243	180.75	7.366	2	0.025
	Chinese	113	194.95			
	Indian	20	246.25			

The results shown in Table 6.26 reveal that Malay, Chinese and Indian ethnic groups were significantly difference in their perception towards the two variables of CSR commitments, namely *cultural diversity* ($p = 0.000$) and *philanthropy* ($p = 0.025$). The overall chi-square value (χ^2) for both CSR commitments are between 7.366 and 25.309 with 2 degree of freedom. As may be seen, there is no significant difference between ethnicity of the respondents and the *community and environment* commitment. The reported significant level of 0.354 ($p > 0.05$) infers that the Malay, Chinese and Indian respondents have perceived equal importance towards *community and environment* as part of the social responsibility elements. A further investigation on the mean rank column shows that the Malay respondents perceived *cultural diversity* (209.21) to be the more important CSR commitment than the Indian and Chinese respondents. On the other

hand, respondents from the Indian ethnicity placed *philanthropy* (246.25) at the top rank compared to the Chinese and Malay respondents.

6.8.1.3 Comparative Analysis between CSR Commitments and Religion

Table 6.27
Kruskal-Wallis Test between CSR Commitments and Religion

CSR Commitment	Religion	N	Mean Rank	Chi-Square	df	Asymp. Sig.
Community & Environment	Islam	247	193.18	12.252	4	0.016
	Buddha	61	166.89			
	Hindu	12	120.75			
	Christian	45	218.78			
	Others	11	153.18			
Cultural Diversity	Islam	247	210.44	35.897	4	0.000
	Buddha	61	165.46			
	Hindu	12	167.50			
	Christian	45	128.12			
	Others	11	93.59			
Philanthropy	Islam	247	180.87	13.258	4	0.016
	Buddha	61	185.27			
	Hindu	12	218.42			
	Christian	45	237.48			
	Others	11	144.68			

Table 6.27 displays a comparative analysis between CSR commitment and the religion of the respondents. The results from Kruskal-Wallis Test demonstrate that respondents with different religious belief expressed distinctive perception on all CSR commitments. This is statistically supported by a low significant level at $p < 0.05$ with 4 degree of freedom. The chi-square value (χ^2) of all three variables is span from 12.252 to 35.897. An observation on the mean rank section shows that the Christian and Muslim respondents (218.78 and 193.18 respectively) are among those who are concerned with the *community and environment* commitment. Apparently, the Muslim respondents also scored the highest mean rank of 210.44 for *cultural diversity* commitment followed by the Hindu respondents (167.50). Meanwhile, the Christian and Hindu respondents were among the top position for the *philanthropy* commitment (237.48 and 218.42 respectively).

6.8.1.4 Comparative Analysis between CSR Commitments and Age, Working Experience and Business Function

Table 6.28
Kruskal-Wallis Test between CSR Commitment 1 (Community & Environment)
and Age, Working Experience and Business Function

CSR Commitment 1	Characteristics	N	Mean Rank	Chi-Square	Asymp. Sig.
Community & Environment	Age:			9.191	0.027
	30 years and below	39	172.51		
	31 - 40 years	139	172.47		
	41 - 50 years	136	195.90		
	51 years and above	62	218.25		
	Working Experience:			14.998	0.005
	5 years and below	31	134.08		
	6 - 10 years	55	164.18		
	11 - 15 years	80	185.42		
	16 - 20 years	82	202.87		
	More than 21 years	128	204.85		
	Business Function:			11.308	0.079
	Finance/Accounting/Credit Management	87	171.83		
Legal/Internal Audit/Risk Management	60	167.28			
Operations/Dealings	79	210.58			
Research and Development	20	172.32			
Sales/Marketing/Corporate Communication	63	210.62			
Treasury/Investment/property Management	55	182.39			
Managing Director	12	209.00			

As shown in Table 6.28, the significant difference of perception among the respondents towards community and environment variable as CSR commitment only occurs for the age and working experience group. Statistically, the significant level for both characteristics is 0.027 and 0.005 ($p < 0.05$) with a chi-square value (χ^2) range between 9.191 and 14.998. A detail inspection on the mean rank column of both categories reveals that the respondents' age above 41-year-old with working experience of more than 16 years scored the highest mean rank for the community and environment commitment. This similar pattern of opinion infers that older managers with high experience tend to be

more committed to participate in the community and environment responsibility compare to the young, less experience managers.

Table 6.29
Kruskal-Wallis Test between CSR Commitment 2 (Cultural Diversity) and Age, Working Experience and Business Function

CSR Commitment 2	Characteristics	N	Mean Rank	Chi-Square	Asymp. Sig.
Cultural Diversity	Age:				
	30 years and below	39	216.59	10.937	0.012
	31 - 40 years	139	200.75		
	41 - 50 years	136	183.56		
	51 years and above	62	154.21		
	Working Experience:				
	5 years and below	31	198.45	5.417	0.247
	6 - 10 years	55	201.66		
	11 - 15 years	80	202.80		
	16 - 20 years	82	187.51		
	More than 21 years	128	172.13		
	Business Function:				
	Finance/Accounting/Credit Management	87	180.51	17.480	0.008
	Legal/Internal Audit/Risk Management	60	176.07		
	Operations/Dealings	79	158.97		
Research and Development	20	244.75			
Sales/Marketing/Corporate Communication	63	207.79			
Treasury/Investment/property Management	55	213.16			
Managing Director	12	194.92			

The results from Table 6.29 illustrate respondents with different age groups and from different business function had significantly difference perception towards the cultural diversity as variable for CSR commitment. The reported significant levels for age and business function group are $p = 0.012$ and 0.008 respectively, which is lower than 0.05 probability level. The chi-square values (χ^2) for both groups are 10.937 and 17.480 respectively. The observed significant level for working experience group is higher than 0.05 probability level which implies no variation among this characteristic towards the *cultural diversity* commitment. This table also shows that the respondents' age below 40-

year-old and are responsible in the research and development function were placed at the highest mean rank on this variable.

Table 6.30
Kruskal-Wallis Test between CSR Commitment 3 (Philanthropy) and Age, Working Experience and Business Function

CSR Commitment 3	Characteristics	N	Mean Rank	Chi-Square	Asymp. Sig.
Philanthropy	Age:			1.342	0.719
	30 years and below	39	174.73		
	31 - 40 years	139	186.38		
	41 - 50 years	136	195.79		
	51 years and above	62	185.92		
	Working Experience:			3.670	0.452
	5 years and below	31	168.98		
	6 - 10 years	55	173.69		
	11 - 15 years	80	182.96		
	16 - 20 years	82	197.21		
	More than 21 years	128	197.47		
	Business Function:			24.212	0.000
	Finance/Accounting/Credit Management	87	152.10		
Legal/Internal Audit/Risk Management	60	187.14			
Operations/Dealings	79	220.28			
Research and Development	20	209.88			
Sales/Marketing/Corporate Communication	63	206.14			
Treasury/Investment/property Management	55	163.87			
Managing Director	12	234.58			

Table 6.30 depicts that only business function groups show a significant difference in respondents' perceptions towards *philanthropy* variable as a CSR commitment. This is supported by a significant level of 0.000 ($p < 0.05$) and a chi-square value (χ^2) of 24.212. No significance difference is found on the age and working experience groups. The significant levels for these two groups (0.719 and 0.452 respectively), which are higher than 0.05 probability level. An analysis of the mean rank column reveals that managing directors of the companies together with the respondents from the operations/dealings function (234.58 and 220.28 respectively) are among those who have placed *philanthropy*

as the most importance variable in the CSR commitment. With mean rank of 152.10, respondents from the finance/accounting/credit management function expressed the least important for *philanthropy* commitment.

6.8.1.5 Comparative Analysis between CSR Commitments and Gender and Nationality of the Company

Table 6.31
Mann-Whitney U Test between CSR Commitments and Gender and Nationality of the Company

CSR Commitment	Characteristics	N	Mean Rank	Z	Asymp. Sig.
Community & Environment	Gender:				
	Male	271	188.10	-0.116	0.908
	Female	105	189.54		
	Nationality of the company:				
Malaysian company Foreign company	343 33	187.01 203.98	-0.859	0.390	
Cultural Diversity	Gender:				
	Male	271	194.71	-1.790	0.073
	Female	105	172.46		
	Nationality of the company:				
Malaysian company Foreign company	343 33	195.46 116.15	-4.024	0.000	
Philanthropy	Gender:				
	Male	271	191.21	-0.780	0.435
	Female	105	181.51		
	Nationality of the company:				
Malaysian company Foreign company	343 33	187.81 195.68	-0.400	0.689	

Table 6.31 portrays a comparative analysis between CSR commitments and the gender of the respondents as well as the nationality of the company. The result from Mann-Whitney U Test reveals that there is only one significant difference that exists between the *cultural diversity* commitment and nationality of the company. This proposition is statistically supported by significant level of 0.000 ($p < 0.05$) and z value of -4.024 implying that these group of respondents are more likely to hold a difference perception towards the importance of *cultural diversity* variable when practising CSR. In terms of mean rank, the

Malaysian company (195.46) ranked cultural diversity as a more important variable for CSR commitment than the foreign company (116.15). In contrast, gender of the respondents shows no difference in their perception concerning this variable. The significant level of this characteristic (0.073) is higher than the 0.05 probability level. A further observation from the table clearly reveals that gender and nationality of the company have attach a same degree of commitment towards the *community and environment* and *philanthropy* variables when making a decision about CSR practices. This may be seen from the highest significant level ($p > 0.05$) for both variables.

6.9 ANALYSIS OF CSR ELEMENTS

The study offered the following null hypotheses that are to be tested:

- H₁ There is no significant difference among ethnicity of the managers of financial institutions in Malaysia on the allocation of importance to (a) economic responsibilities, (b) legal responsibilities, (c) ethical responsibilities, and (d) philanthropic responsibilities.

- H₂ There is no significant difference among religion of the managers of financial institutions in Malaysia on the allocation of importance to (a) economic responsibilities, (b) legal responsibilities, (c) ethical responsibilities, and (d) philanthropic responsibilities.

6.9.1 Evaluation of CSR Elements by Respondents' Ethnicity

Table 6.32
Kruskal-Wallis Test for CSR Elements by Ethnicity

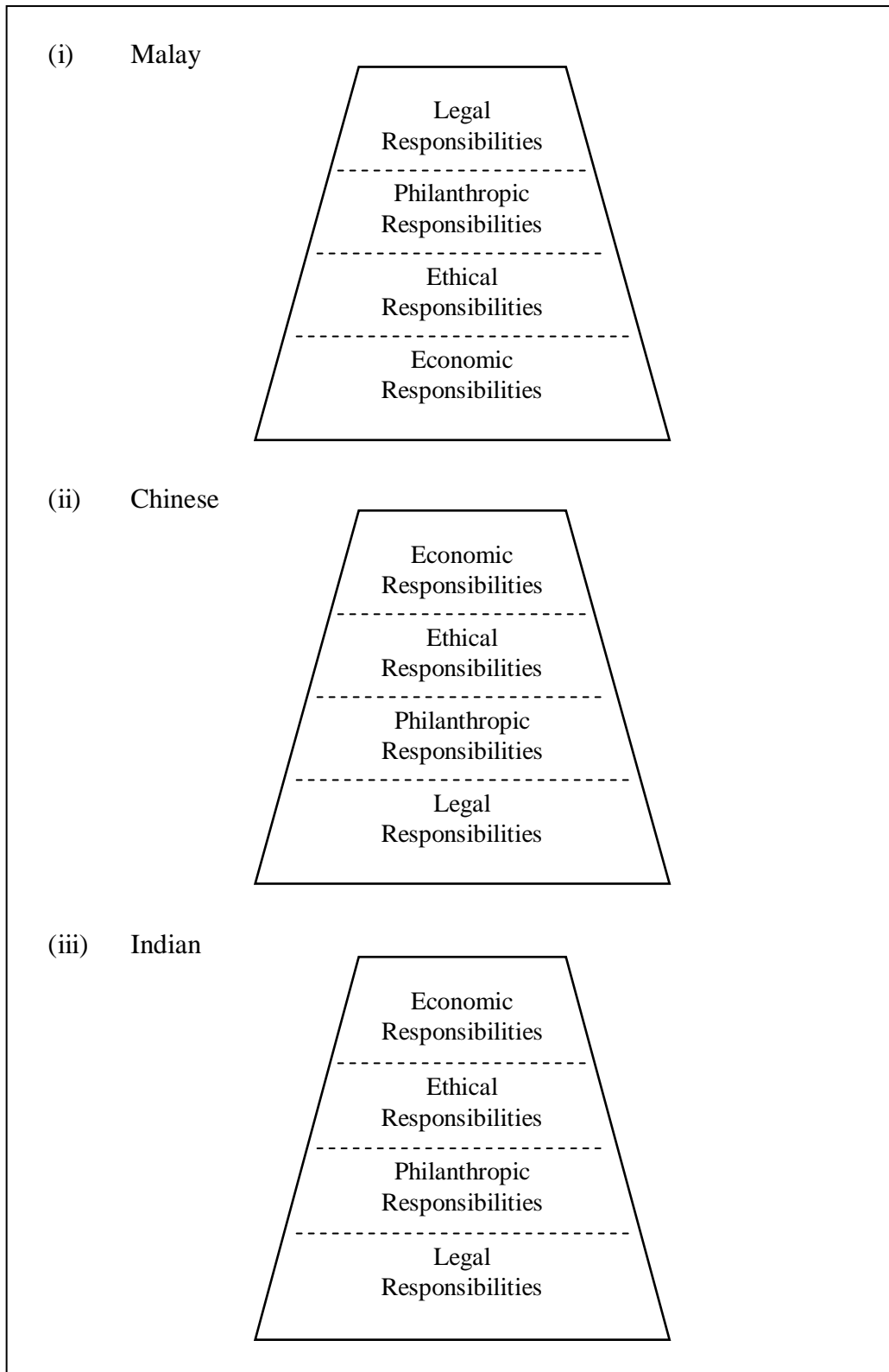
CSR Element	Ethnicity	N	Mean Rank	Chi-Square	df	Asymp. Sig.
Economic Responsibilities	Malay	243	215.20	42.488	2	0.000
	Chinese	113	137.46			
	Indian	20	152.45			
Legal Responsibilities	Malay	243	181.83	3.577	2	0.167
	Chinese	113	196.90			
	Indian	20	222.10			
Ethical Responsibilities	Malay	243	198.09	5.604	2	0.061
	Chinese	113	172.59			
	Indian	20	161.85			
Philanthropic Responsibilities	Malay	243	190.51	1.048	2	0.592
	Chinese	113	181.29			
	Indian	20	204.80			

The result from Table 6.32 demonstrates a comparative analysis among the three difference ethnicities managers of financial institutions in Malaysia on the allocation of the importance to economic, legal, ethical and philanthropic responsibilities. The result from Kruskal-Wallis test indicates that the Malay, Chinese and Indians respondents were significantly differs in their perceptions towards only the economic responsibilities. This is supported by the significant value of 0.000 ($p < 0.05$) and a chi-square value (χ^2) of 42.488 with two degree of freedom. Hence, hypothesis H₁ (a) can be rejected. An observation on the mean rank section shows that the Malay respondents have placed economic responsibilities (215.20) to be the most important element in CSR. The Chinese respondents, however, scored the least mean rank for this element (137.46). As may be seen, no significant difference were observed in the degree of importance

allocated by the Malay, Chinese and Indians respondents to the other three responsibilities, namely legal, ethical and philanthropic responsibilities ($p = 0.167$, $p = 0.061$ and $p = 0.592$ respectively). Therefore, hypothesis H_1 (b), (c) and (d) failed to be rejected.

Figure 6.3 presents a further comparison between each element of CSR from the Malay, Chinese and Indians perspectives. This figure also provides the ranking analysis of the importance of CSR elements by each ethnic group. In detail, the Malay respondents ranked the different social responsibility elements in a decreasing order of important; (1) economic, (2) ethical, (3) philanthropic, and (4) legal responsibilities. Interestingly, in all three ethnic groups, the Chinese and Indian respondents seem to have a similar degree of perception on the CSR elements. Both ethnic groups allocated the least importance to the corporate economic responsibilities than of the Malay counterparts. As for the Malay respondents, the corporate legal responsibilities were positioned as the least important CSR. The Chinese and Indian respondents, however, considered both legal and philanthropic responsibilities to be the most important corporate duties. Overall, the Chinese and Indian respondents provide the following in a decreasing order of importance; (1) legal, (2) philanthropic, (3) ethical, and (4) economic responsibilities.

Figure 6.3
Comparison of CSR Elements across Ethnic Group



6.9.2 Evaluation of CSR Elements by Respondents' Religion

Table 6.33
Kruskal-Wallis Test for CSR Elements by Religion

CSR Element	Religion	N	Mean Rank	Chi-Square	df	Asymp. Sig.
Economic Responsibilities	Islam	247	215.39	56.558	4	0.00
	Buddha	61	145.28			
	Hindu	12	152.50			
	Christian	45	101.72			
	Others	11	218.64			
Legal Responsibilities	Islam	247	181.30	32.768	4	0.000
	Buddha	61	160.47			
	Hindu	12	180.75			
	Christian	45	272.11			
	Others	11	172.14			
Ethical Responsibilities	Islam	247	198.51	11.725	4	0.021
	Buddha	61	154.50			
	Hindu	12	190.75			
	Christian	45	193.73			
	Others	11	128.36			
Philanthropic Responsibilities	Islam	247	190.67	17.224	4	0.002
	Buddha	61	158.55			
	Hindu	12	178.75			
	Christian	45	235.32			
	Others	11	124.95			

The results shown in Table 6.33 display a comparative analysis between CSR elements and the religion of the respondents. The results from Kruskal-Wallis Test indicate that the economic, legal, ethical and philanthropic responsibilities of the corporations were not significantly associated with the religion of the respondents. This is statistically proved by a low value of significant level at $p < 0.05$ for all four CSR elements. As may be seen, the chi-square values (χ^2) of all CSR elements fall between 11.725 and 56.558, with 4 degree of freedom. Therefore hypothesis H_2 can also be rejected. An observation on the mean rank section shows that the Muslim respondents have scored the highest mean for the ethical responsibilities (198.51), while the Christian respondents placed the highest

score for legal (272.11) and philanthropic responsibilities (235.32). For the other religion, they are most concern with the economic responsibilities (218.64).

6.9.3 Evaluation of CSR Elements by Company's Profile

Table 6.34
Kruskal-Wallis Test for CSR Elements by Company's Profile

CSR Element	Company's Profile	N	Mean Rank	Chi-Square	df	Asymp. Sig.
Economic Responsibilities	Commercial bank	79	216.33	36.961	6	0.000
	Investment bank	54	163.41			
	Brokerage	40	142.10			
	Fund management	42	224.95			
	Insurance/ <i>Takaful</i>	67	147.99			
	Unit trust	46	193.33			
	Large public fund	48	229.62			
Legal Responsibilities	Commercial bank	79	198.04	26.758	6	0.000
	Investment bank	54	191.81			
	Brokerage	40	180.58			
	Fund management	42	173.60			
	Insurance/ <i>Takaful</i>	67	226.06			
	Unit trust	46	124.07			
	Large public fund	48	198.04			
Ethical Responsibilities	Commercial bank	79	228.32	18.727	6	0.005
	Investment bank	54	179.19			
	Brokerage	40	176.15			
	Fund management	42	175.76			
	Insurance/ <i>Takaful</i>	67	187.67			
	Unit trust	46	148.59			
	Large public fund	48	194.29			
Philanthropic Responsibilities	Commercial bank	79	225.23	23.544	6	0.001
	Investment bank	54	154.07			
	Brokerage	40	179.50			
	Fund management	42	183.36			
	Insurance/ <i>Takaful</i>	67	209.02			
	Unit trust	46	149.39			
	Large public fund	48	187.61			

As provided in Table 6.34, a similar pattern is reported on the evaluation of CSR elements by the company's profile as before. The result indicates that managers working in a different financial institution in Malaysia tend to have difference opinions and

perceptions when pertaining to economic, legal, ethical and philanthropic responsibilities of the corporations. This is statistically supported by a low significant level at all elements, $p < 0.05$ with 6 degree of freedom. The computed chi-square values (χ^2) of all variables are span from 18.727 to 36.961. An analysis of mean rank column reveals that commercial bank was at the top position for two out of four variables, namely, ethical (228.32) and philanthropic responsibilities (225.23). With the value of 229.62, the large public fund organisations have scored the highest mean rank for economic responsibilities variable, as for legal responsibilities variable, the insurance/*takaful* companies were at a leading position with 226.06.

6.9.4 Evaluation of CSR Elements by Respondents' Gender, Age and Working Experience

Table 6.35
Mann-Whitney U Test for CSR Elements by Gender

CSR Element	Gender	N	Mean Rank	Z	Wilcoxon W	Asymp. Sig.
Economic Responsibilities	Male	271	200.41	-3.442	16565.500	0.001
	Female	105	157.77			
Legal Responsibilities	Male	271	200.51	-3.478	16538.500	0.001
	Female	105	157.51			
Ethical Responsibilities	Male	271	193.09	-1.325	18549.500	0.185
	Female	105	176.66			
Philanthropic Responsibilities	Male	271	190.20	-0.490	19333.000	0.624
	Female	105	184.12			

Table 6.35 presents a comparative analysis between the four CSR elements and the gender of the respondents. The result from the table reveals that the gender of the respondents had a significant difference in perception towards economic and legal

responsibilities only. The computed significant level for both variables is 0.001 probability level (where $p < 0.05$) and z value of 3.442 and 3.478 respectively. Further analysis onto the mean rank column implies that the male respondents have allocated the most importance degree to the corporate economic (200.41) and legal responsibilities (200.51), than the female. On the other hand, there is no significant difference reported between the gender and both ethical and philanthropic responsibilities.

Table 6.36
Kruskal-Wallis Test for CSR Elements by Age

CSR Element	Age	N	Mean Rank	Chi-Square	df	Asymp. Sig.
Economic Responsibilities	30 years and below	39	260.26	31.336	3	0.000
	31 - 40	139	185.54			
	41 - 50	136	193.96			
	51 years and above	62	138.03			
Legal Responsibilities	30 years and below	39	179.60	21.856	3	0.000
	31 - 40	139	168.70			
	41 - 50	136	185.77			
	51 years and above	62	244.47			
Ethical Responsibilities	30 years and below	39	171.82	6.038	3	0.110
	31 - 40	139	178.14			
	41 - 50	136	206.24			
	51 years and above	62	183.32			
Philanthropic Responsibilities	30 years and below	39	173.37	12.394	3	0.006
	31 - 40	139	166.54			
	41 - 50	136	205.37			
	51 years and above	62	210.25			

The results from Table 6.36 indicate that there is a significant disagreement among the age group of the respondents on three out of four CSR elements namely, economic, legal and philanthropic responsibilities, but no significant disagreement was found in the age group regarding the ethical responsibilities. The significant levels for the economic, legal and philanthropic responsibilities are 0.000, 0.000 and 0.006 respectively, where all is higher than the 0.05 probability level with the chi-square value (χ^2) from 12.394 to

31.336. The observed significant level for ethical responsibilities ($p = 0.110$) is higher than 0.05 probability level, this implies that there is no variation between the age group of respondents towards this variable in the population. A further inspection from the table reveals the mean rank of the age group 51 years old and above, has exceeded to those of the other age categories in the legal and philanthropic responsibilities (244.47 and 210.25 respectively). In contrast, respondents from the age group of below 30 years old, is the only group that have placed the economic responsibilities as their top rank, when compared to the others (260.26).

Table 6.37
Kruskal-Wallis Test for CSR Elements by Working Experience

CSR Element	Working Experience	N	Mean Rank	Chi-Square	df	Asymp. Sig.
Economic Responsibilities	5 years and below	31	253.90	19.120	4	0.001
	6 - 10 years	55	216.95			
	11 - 15 years	80	177.02			
	16 - 20 years	82	174.11			
	More than 20 years	128	176.83			
Legal Responsibilities	5 years and below	31	173.53	24.801	4	0.000
	6 - 10 years	55	158.05			
	11 - 15 years	80	163.72			
	16 - 20 years	82	181.01			
	More than 20 years	128	225.50			
Ethical Responsibilities	5 years and below	31	163.58	6.919	4	0.140
	6 - 10 years	55	169.35			
	11 - 15 years	80	184.41			
	16 - 20 years	82	210.20			
	More than 20 years	128	191.43			
Philanthropic Responsibilities	5 years and below	31	172.98	10.414	4	0.034
	6 - 10 years	55	166.36			
	11 - 15 years	80	171.91			
	16 - 20 years	82	190.42			
	More than 20 years	128	210.91			

Again, Table 6.37 provides a similar pattern of the respondents' perception towards the degree of importance for the CSR elements. The results from Kruskal-Wallis Test show that the respondents with a different working experience characteristic have showed a significant difference on their perception of the economic, legal as well as philanthropic responsibilities of the CSR elements for the financial institution in Malaysia to support. This is statistically supported by a low significant level at $p < 0.05$ ($p = 0.001$, $p = 0.000$ and $p = 0.034$ respectively) with 4 degree of freedom and the chi-square values (χ^2) span from 10.414 to 24.801). An analysis on the mean rank section also reveals similar trends as before, which indicates that the respondents with the highest working experience are more concerned towards the legal and philanthropic responsibilities (225.50 and 210.91 respectively). On the other hand, respondents with the least working experience are more likely to support the economic responsibilities (253.90) of the CSR element. From the table, it may be seen that the ethical responsibilities, have a chi-square value (χ^2) of 6.919 with 4 degree of freedom, and it is not significant to the 0.140 probability level ($p > 0.05$), which infers that no variation existed among the working experience group towards ethical responsibilities of the corporation.

6.10 OVERALL ANALYSIS OF CSR ELEMENTS

The proceeding result provides a collective examination of the top and executive managers' in the financial services sector in Malaysia on their perception of the economic, legal, ethical and philanthropic responsibilities of the business corporations.

Table 6.38
Respondents' Evaluation of CSR Importance in Malaysia

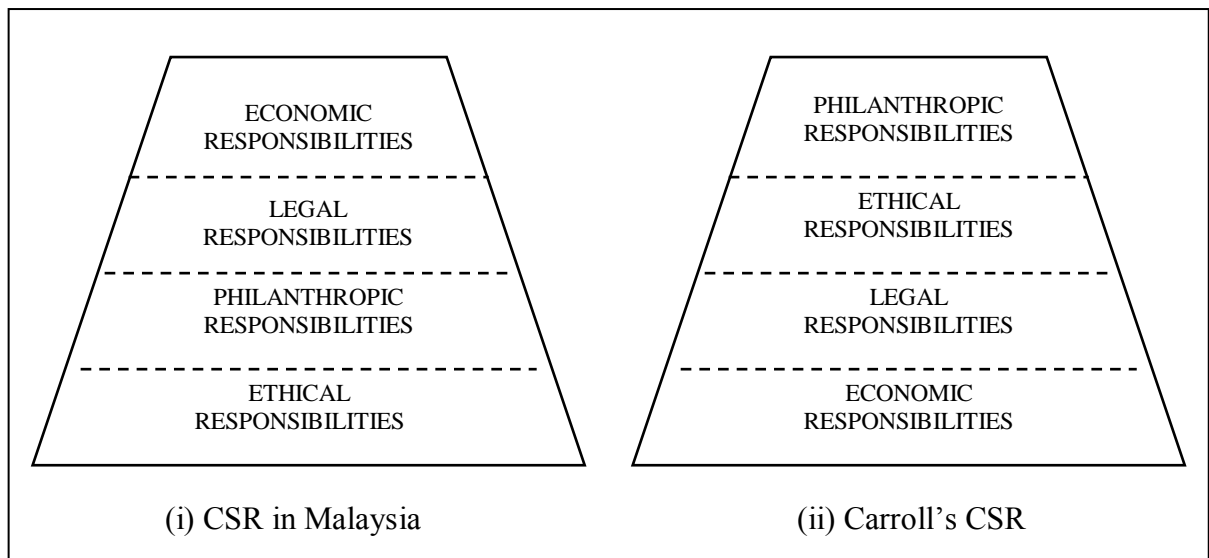
CSR Element	Mean	Rank of Importance
Ethical Responsibilities	3.9269	1
Philanthropic Responsibilities	3.9103	2
Legal Responsibilities	3.6709	3
Economic Responsibilities	3.0924	4

The reported result from Table 6.38 provides the respondents' evaluation of CSR importance in Malaysia. An analysis on the mean section reveals that ethical and philanthropic responsibilities were regarded as the highest important CSR element for corporation to support. With both responsibilities having almost the same mean value (3.9269 and 3.9103 respectively), this implies that the Malaysian financial managers believed ethical and philanthropic responsibilities are the most important duties for their corporation. A further examination from the table shows that legal responsibilities were placed third with a mean score of 3.6709. Unlike ethical, philanthropic and legal responsibilities, the respondents scored the least importance to corporate economic responsibilities (3.0924). This finding suggests that Malaysian financial managers perceive non-economic CSR element as their primary responsibility of business corporations when compare to the economic responsibilities. An extensive analysis of sixteen statements extracted from the four different types of CSR elements can be seen in Table 6.39.

Table 6.39
Detail Evaluation of CSR Statement in Malaysia

CSR Element	Statement	Mean	Std. Dev.
Ethical Responsibilities	Treating all employees and job applicants equally without discrimination	4.30	0.830
	Avoid any projects or activities involving alcohol, drugs and gambling	4.07	1.164
	Respect and understand ethics and cultural diversity among difference ethnic groups	3.79	0.846
	Ensure that the respect for ethical values has priority over economic performance	3.55	0.951
Philanthropic Responsibilities	Promoting sustainable development activities	4.02	0.894
	Allocate some of the profits for philanthropic activities such as offering scholarship and donation to less fortunate people	3.99	0.815
	Help to solve social problems such as poverty, crime and illiteracy	3.97	0.877
	Supporting charities and community projects even if there is probably no profit potential	3.67	0.920
Legal Responsibilities	Ensure that company's operations are in compliance with environmental laws and regulations	4.12	0.851
	Committed to take action and disclose any violation of laws, regulations and policies such as abuse of power, fraud and bribery	3.88	0.890
	Paying tax and royalty consistently	3.72	0.963
	Refrain from putting aside their contractual obligation	2.96	0.885
Economic Responsibilities	Involve in social welfare activities if it creates competitive advantage	3.85	0.818
	Enhance corporate reputation and goodwill solely based on economic strength	3.39	1.032
	Disregard social and environmental responsibility involvement if its affect financial performance	2.63	1.078
	Emphasising on profit maximisation rather than promoting corporate social responsibility	2.51	0.985

Figure 6.4
Comparison of CSR Elements



This assessment (as shown in Figure 6.4) suggests that Malaysian top and executive managers are mostly concern about business communities engaging more towards the ethical and social activities, and not only about business achieving a high level of economic performance. Altogether, this finding challenges the previous theoretical conception of CSR developed by Carroll (1979), which appears to portray a better opinion of the United States population. As the consequences, top and executive managers in financial services sector in Malaysia view the economic and legal responsibilities as secondary only. This finding supports the previous study conducted by Maignan (2001) who found out that the French and German consumers have ranked the economic responsibilities as the least social responsibility for the corporation to support.

6.11 OTHERS PERCEPTION TOWARDS CSR PRACTICES IN MALAYSIA

In this section, the researcher discusses the results on the perception of top and executive managers in the financial sector towards the two different statements of CSR practices. There are two questions that were imposed to the respondents in order to generate their perceptions on both themes. The first question seeks perceptions of the respondents upon the issue of the influence of economic condition on the firms' social responsibility involvement. The second question asked the respondents of their opinions on a specific issue underpinning the Islamic ethical conduct and social responsibility. In order to analyse these particular issues, this study has proposed the following null hypotheses that are to be tested.

- H₃ There is no significant difference among various companies' profile within financial sector in Malaysia on the degree of agreement that company's social responsibility involvement is dependent upon the national economic condition.
- H₄ There is no significant difference among various companies' profile within financial sector in Malaysia on the degree of agreement that business must avoid any activities that involve alcohol, drugs and gambling element.

Table 6.40 provides a statistical result for statement 1 and 2 made by a company's profile. The Kruskal-Wallis test reveals that there is no significant difference among the company's profile within the financial services sector in Malaysia on pertaining to the degree of agreement that a company's social responsibility involvement is dependent upon the national economic condition. In other words, the respondents from various financial services sector in Malaysia have claim that the national economic condition will give an impact on the level of CSR involvement. As may be seen, the reported significant level for statement 1 ($p = 0.071$) is evidently higher than 0.05 probability level with a chi-square value (χ^2) of 11.620, with 6 degree of freedom. Hence, the null hypothesis H₃

cannot be rejected. From the table, an analysis on statement 2 indicates the significant differences among various company's profile within the financial sector in Malaysia on the degree of agreement that a business must avoid any projects involving alcohol, drug and gambling element. The computed chi-square value (χ^2) of 18.967 with significant level of 0.004 is lower than 0.05 probability level. Therefore, we may reject hypotheses H_4 . A further inspection on the mean rank column reveals that the commercial bank and large public fund organisations (219.49 and 214.52 respectively) were at the highest rank in supporting the avoidance of alcohol, drug and gambling elements in business activities. On the other hand, the Insurance/*Takaful* companies scored the least mean rank in support to this statement (157.28).

Table 6.40
Kruskal-Wallis Test for Statement 1 and 2 by Company's Profile

Statement	Company's Profile	N	Mean Rank	Chi-Square	Asymp. Sig.
1. A firm's level of social involvement is dependent upon the national economic condition, that is more involvement in times of prosperity and less involvement in times of economic slowdown	Commercial Bank	79	203.99	11.620	0.071
	Investment bank	54	202.44		
	Brokerage	40	205.18		
	Fund management	42	196.57		
	Insurance/ <i>Takaful</i>	67	184.60		
	Unit trust	46	153.52		
	Large public fund	48	165.32		
2. Business must avoid any projects or activities involving alcohol, drugs and gambling	Commercial Bank	79	219.49	18.967	0.004
	Investment bank	54	176.78		
	Brokerage	40	185.85		
	Fund management	42	184.88		
	Insurance/ <i>Takaful</i>	67	157.28		
	Unit trust	46	172.96		
	Large public fund	48	214.52		

6.11.1 Comparison across Respondents' Characteristic

The following section offers a further analysis on whether demographic profiles of the respondents (ethnicity, religion, gender, age and working experience) will give any impact on their opinions and perceptions towards statement 1 and 2. The following null hypotheses will be tested and analysed accordingly based on Table 6.41 and Table 6.42.

- H₅ There is no significant difference among (a) ethnicity, (b) religion, (c) gender, (d) age, and (e) working experience of the managers of financial institutions in Malaysia on the degree of agreement that company's social responsibility involvement is dependent upon the national economic condition.
- H₆ There is no significant difference among (a) ethnicity, (b) religion, (c) gender, (d) age, and (e) working experience of the managers of financial institutions in Malaysia on the degree of agreement that business must avoid any activities that involve alcohol, drugs and gambling element.

Results from Kruskal-Wallis test in Table 6.41 demonstrates that respondents with different religion, gender, age and working experience had significant difference agreement on the issue that company's social responsibility involvement is dependent upon the national economic condition. The reported significant level for religion, gender, age and working experience are $p = 0.004, 0.004, 0.004$ and 0.020 respectively, which is lower than 0.05 probability level. Hence, the null hypotheses H₅ (b), (c), (d) and (e) can be rejected. An observation on the mean rank section shows the respondents with 'other' religion have scored the highest mean rank of 242.14 which implies that those who are with the 'other' religion appear to support statement 1. The results also indicate that the respondents' demographic characteristics such as male, age group between 41 – 50 years old, and working experience between 11 to 20 years have agree more with this statement.

Table 6.41
Kruskal-Wallis Test and Mann-Whitey U Test for Statement 1* across
Respondents' Characteristics

Respondents' Characteristics	N	Mean Rank	Chi-Square/ Z	Asymp. Sig.
Ethnicity:				
Malay	243	189.27	0.696	0.706
Chinese	113	184.01		
Indian	20	204.55		
Religion:				
Islam	247	188.56	15.494	0.004
Buddha	61	209.96		
Hindu	12	209.00		
Christian	45	140.48		
Other	11	242.14		
Gender:				
Male	271	198.10	-2.867 (Z)	0.004
Female	105	163.72		
Age:				
30 years and below	39	181.92	13.149	0.004
31 - 40 years	139	196.99		
41 - 50 years	136	200.94		
51 years and above	62	146.32		
Working Experience:				
5 years and below	31	190.56	11.706	0.020
6 - 10 years	55	169.05		
11 - 15 years	80	215.28		
16 - 20 years	82	200.94		
More than 21 years	128	171.65		

* A firm's level of social involvement is dependent upon the national economic condition that is more involvement in times of prosperity and less involvement in times of economic slowdown.

The results shown in Table 6.42 below demonstrate that there is a significant difference of opinion among the respondents towards statement 2, which only occurs for ethnicity, religion and working experience group. Statistically, the significant level of those respondents groups are lower than 0.05 probability level (0.000, 0.000 and 0.011 respectively), thus implying that the null hypotheses H_6 (a), (b) and (e) can be rejected. The mean rank column shows that the Malay respondents agree more with the statement 2, that a business must avoid project and activities involving alcohol, drugs and gambling element. The table also depicts that, Muslim respondents scored the highest mean rank of 211.28 for statement 2 followed by the Hindu respondents (201.67). Similarly as before,

respondents with working experience between 11 to 20 years appears to support statement 2, more than the other working experience groups.

Table 6.42
Kruskal-Wallis Test and Mann-Whitey U Test for Statement 2* across Respondents' Characteristics

Respondents' Characteristics	N	Mean Rank	Chi-Square/ Z	Asymp. Sig.
Ethnicity:				
Malay	243	211.23	34.914	0.000
Chinese	113	147.70		
Indian	20	142.85		
Religion:				
Islam	247	211.28	41.468	0.000
Buddha	61	139.18		
Hindu	12	201.67		
Christian	45	144.04		
Other	11	118.09		
Gender:				
Male	271	189.26	-0.234 (Z)	0.815
Female	105	186.54		
Age:				
30 years and below	39	190.46	3.288	0.349
31 - 40 years	139	185.40		
41 - 50 years	136	198.79		
51 years and above	62	171.66		
Working Experience:				
5 years and below	31	174.84	13.145	0.011
6 - 10 years	55	169.82		
11 - 15 years	80	193.82		
16 - 20 years	82	220.85		
More than 21 years	128	175.78		

* Business must avoid any projects or activities involving alcohol, drugs and gambling.

Overall, the results of the study suggest a positive perception and understanding of the CSR among top and executive managers. There is a strong consensus among the respondents for the commitment of social responsibility particularly on the activities that provides benefit for the community enhancement as well as for the environment. Furthermore, it has been observed that top and executive financial managers in Malaysia generally give out more attention towards non economic responsibilities. This finding is not consistent with the argument made by Carroll (1979) and Visser (2008). The findings

also provide evidence that culture background has an impact on the perception of top and executive managers towards the CSR issues in Malaysia. Besides that, it also provides the detail investigation on the perception and attitudes of the respondents across various demographic backgrounds particularly on ethnicity and religion which both shown to have mix outcomes.

6.12 CONCLUSION

This chapter presents comprehensive empirical evidence on the perception of top and executive managers in the financial services sector toward CSR issues and practices in Malaysia. At the same time, the results offer a current picture of the CSR-related issues in this country. The focus of the analysis is also to explore the similarities and differences in opinions that exist among respondents across various demographic characteristics.

First of all, majority of the top and executive managers in the financial sector in Malaysia have perceived that social responsibility practices in Malaysia are at a moderate level. More than half of the respondents declared that their companies have engaged in CSR policy. This proves that the corporations in Malaysia are concern and committed to CSR activities. In fact, there is evidence to proof that CSR will continue to grow significantly in the future.

Second, there is a mix consensus among top and executive managers towards CSR awareness. Although majority of them have agreed that business should response more to social responsibility issues for the company's survival and competitiveness, but no agreement was obtained particularly on issues that are related to CSR expenses.

Third, by referring to the result of the factor analysis, the study identifies four main drivers that are able to motivate corporations to practice CSR in Malaysia. The drivers are '*local and global forces*', '*corporate image*', '*economic performance*' and '*cultural awareness*'. In order to evaluate the effectiveness of these drivers, this study analyses the impact of demographic background of the respondents for each of them. The study shows that ethnicity and religious background have no effect on the respondents' perception toward a particular CSR driver – '*corporate image*'.

Fourth, as indicated in the factor analysis result, the study discovers that top and executives managers ranked the '*community and environment*' as the most important CSR commitment by Malaysian corporations, followed by '*cultural diversity*' commitment in second place and '*philanthropy*' commitment in the last position. This assessment suggests that Malaysian managers are mostly concern with the community involvement and environmental issue. There is no significant difference of perception between the respondents' ethnicity background and the '*community and environment*' commitments. On the other hand, an observation on the religion characteristic demonstrates that the Christian and Muslim respondents were most concerned about '*community and environment*'.

Fifth, Malaysian top and executive financial managers ranked ethical responsibilities as the most important CSR duties for corporation. Philanthropy was given the second highest priority, followed by legal and then, the economic responsibilities. Yet, Carroll's CSR model (1979) appears to speak better for the United States managers. A further examination on ethnic group characteristic reveals that the Chinese and Indian respondents show a similar perception on CSR. They ranked the following CSR elements

in a decreasing order of importance; (1) legal, (2) philanthropy, (3) ethical, and (4) economic responsibilities. In contrast, Malay respondents ranked economic responsibilities as the most important CSR and placed the legal responsibilities as the least important CSR. Perhaps this is due to the realisation that the Malay society in average is much less economically developed compare to the Chinese and Indian.

Sixth, top and executive managers in Malaysian financial services sector assert that a firm's involvement in social responsibility activities depends upon the national economic condition.

Finally, the study reports a significant difference among the financial institutions in Malaysia on a degree of agreement that business must avoid any activities that involve with alcohol, drugs and gambling element. The results show that commercial banks, large public fund companies and investment banks are the top institutions that support this statement. This is simply because that the majority of the Islamic banking and financial market in Malaysia were dominated by those institutions. An analysis across the ethnic groups and religion background reveals that Malay-Muslim respondents were at the highest rank in supporting the Islamic ethical conducts, followed by Hinduism.

To summarise the findings and analysis, this study suggests that top and executive managers in financial services sector demonstrate a growing concerns toward CSR practices in Malaysia. Overall, the results posit a positive awareness and attitudes toward CSR initiatives by the Malaysian financial institutions. However, in depth observation across ethnicity of the respondents reveals that there are no homogenous results especially in regards with the four CSR elements. The finding clearly demonstrates

differences of opinion between Malaysian *bumiputera* and non-*bumiputera* respondents. This is potentially a significant finding since culture gives a significant impact on people attitude, behaviour and perception. This finding could also be the result from many countries that share a similar pattern of multicultural society like Malaysia. Last but not least, Table 6.43 provides an interpretation of the results.

Table 6.43
Summary of the Findings

Hypothesis	Result	Interpretation
H ₁ (a)	Rejected	There is a significant different between ethnicity of the managers and economic responsibilities.
H ₁ (b, c, d)	Failed to be rejected	There is no significant different between ethnicity of the managers and legal responsibilities, ethical responsibilities and philanthropic responsibilities.
H ₂	Rejected	There is a significant difference between religion of the managers and economic responsibilities, legal responsibilities, ethical responsibilities and philanthropic responsibilities.
H ₃	Failed to be rejected	There is no significant difference among company's profile on the degree of agreement that CSR is dependent upon economic condition.
H ₄	Rejected	There is a significant difference among company's profile on the degree of agreement that business must avoid alcohol, drugs and gambling activities.
H ₅ (a)	Failed to be rejected	There is no significant difference among ethnicity on the degree of agreement that CSR is dependent upon economic condition.
H ₅ (b, c, d, e)	Rejected	There is a significant difference among religion, gender, age and working experience on the degree of agreement that CSR is dependent upon economic condition.
H ₆ (a, b, e)	Rejected	There is a significant difference among ethnicity, religion and working experience on the degree of agreement that business must avoid alcohol, drugs and gambling activities.
H ₆ (c, d)	Failed to be rejected	There is no significant difference among gender and age on the degree of agreement that business must avoid alcohol, drugs and gambling activities.

CHAPTER 7

CONCLUSION AND RECOMMENDATION

7.1 INTRODUCTION

This chapter provides summary of the main findings from the study. Generally, this study was conducted to explore the perception of top and executive managers in financial services sector in Malaysia towards CSR practices. This study aims to find out the influence of cultural background of the respondents on various CSR issues. This chapter is organised as follows: section 8.2 summarises the findings from the study, section 8.3 deals with the research implication, and finally section 8.4 discusses the limitation of the research and recommendations for future research.

7.2 SUMMARY OF FINDINGS

The purpose of this study is to get the latest information on the practice and implementation of CSR in Malaysia. From the results obtained in the past studies, the variety of culture and tradition among local residents is known as one of the most important elements that influence CSR initiatives in business community (Jamali and Mirshak, 2007; Kampf, 2007). Jones (1999) stated that the national socio-cultural environment and the economic development in certain countries significantly influence the practice of CSR by business corporations. Since business corporations are among the entities that depend on their environment to survive, they have to understand the ethical values of the local communities before implementing any activities related to social responsibilities. Business corporations also have to understand the culture in the local communities for the business to be accepted and to maintain their achievements.

Malaysia is not only known as a fast developing country, but it is also richly diverse in traditions and cultures. Since the time of Malay Sultanate of Malacca, the Malay land (*Tanah Melayu*) was known as the main location for traders around the world. Many races came and stayed in the land to look for sustenance. After the arrival of the British, the Malay land started to show diversity among the community. When Malaysia achieved its independence in 1957, the native Malay together with the Chinese and Indian turned Malaysia to become a multiracial country. The diversity of cultures shared by the Malaysian communities has made the country to be well-known around the world as a country that has a variety of communities but is still able to live in peace and harmony. As a country with a rapidly developing economic sector, overseas traders are seeking for business opportunities in Malaysia. In order to do that, it is important for the traders to deeply understand Malaysian background that consists of multiethnic society. This is because every ethnic group has its own cultures and traditions that have been practiced since long time ago. The differences between the models of business practices from other country, particularly from the West, need to be harmonised with the local culture before the models can be implemented. Even though the Western models are well-known and have been used as benchmarks among business communities, the harmonisation with the local culture is important as the Malaysian communities live within distinctive ethnic groups – the Malay, Chinese and Indian.

Chapter Two explains the details about background and history of the establishment of Malaysia. Generally, this chapter provides the details on the politic, economic and social situations of the local residents in Malaysia before and after the British colonialism. This explanation concentrates on how multiracial country in Malaysia exists. Historically, the Malay land was a very fertile land for agriculture and rich in minerals especially tin ore.

The demand in the world economy during that time gave an idea to the British administration to bring in the labour from China and India. Thus, this had led to ethnic group segregation because the Malay community were placed in agriculture sector, the Chinese community in mining and business sectors, and the Indian community in plantation sector (rubber). This economy situation continued until Malaysia achieved its independence. Rao (1980) said that at the time of independence, Malaysia was a country with the highest standard of living in Asia. The rapid development of economy at that time was not enough to bring economic prosperity for the residents. For example, income inequality and the poverty gap had spread. The Malay community was still left behind and they were trapped in their traditional agriculture activity, while other ethnic groups had successfully moved forward. The imbalanced economy was one of the factors that led to the blood tragedy on 13th May 1969. Due to the tragedy, the Government had formulated, among others, the National Principles (*Rukunegara*) and New Economic Policy. The goals were to integrate the multiracial communities in Malaysia under one social ideology, which is known as *Rukunegara*, besides to increase the economic activities as well as to reduce the gap between the communities in Malaysia. This chapter also discusses the Islamic resurgence movement that happened in 1970's. The Islamic values have become a need in the Malaysian administration since 1980's. Since then, the Malaysian Government is trying to channel Islamic values in the Malay community from time to time until Malaysia becomes the main hub for the development of Islamic banking and financial systems as seen today.

Chapter Three elaborates in detail about CSR as a globally accepted theory. The discussion begins with an introduction on the definition of CSR and evolution theory that existed in early 1950's. Since that decade, other theories that have existed were about the

need for the implementation of CSR among business corporations. CSR theory basically revolves around two main blocks of opinion. The first block of opinion came from Friedman (1962), where he stated that the social responsibility of business corporations was just to maximise the profits of the companies. In other words, the companies are responsible for the increase of profits that will ensure growth in the shareholders' value. He added that activities of the companies in the community will decrease the profits. On the other hand, the second block of opinion stated that business corporations have other responsibility besides increasing the companies' profits. There are a lot of theories that have been created to help and support business corporations to implement social responsibility. They are Stakeholder Theory, Agency Theory and Legitimacy Theory. Carroll (1991) introduced CSR Pyramid Theory, which is well-known until now. This theory explains that every company is restricted with four phases of responsibilities that consist of economic, ethical, legal and philanthropic responsibilities. Carroll's CSR Pyramid Theory has been chosen to be the basic theory for this study. Questions based on the theory were asked to the top and executive managers in Malaysia. The purpose is to see the respondents' perception towards CSR practices.

This study also includes literature review on previous studies. The findings showed that the studies on CSR involving developing countries were too limited compared to the developed countries. This is one of the objectives of the study implementation. It is commonly known that the new economic power concentrates in the Asian region. This continent is unique due to the diverse cultures and religions that influence the implementation of CSR in companies. To date, the studies on cross-culture in CSR are limited. Most of the researches concentrate on developed countries with comparison between countries is the scope of study. To the researcher's knowledge, there is no study

that has been conducted to study the effects of diversity in culture on the respondents' perceptions towards CSR in a country. The findings from this study suggest a unique CSR model for Malaysia and it is hoped to be the guide for local and international companies that is operating and that will be operating in this country.

Chapter Four discusses characteristics and the subculture (Malay, Chinese and Indian) effects on business environment in Malaysia. This study shows that there are some different characteristics among the three main ethnic groups in Malaysia. This chapter also provides an overview of the current framework of CSR practices. Currently, the regulations regarding the CSR against the companies in Malaysia are voluntary. The study on the economic development in Malaysia is still in the scope of discussion on the effects of Islam towards the economic system. As a multicultural country with the majority of the community being Muslim and the development in Islamic financial is being focused on, *shariah* paradigm is also seen to have a strong influence towards the implementation of CSR in Malaysia. Islam suggests every business corporation to run the operation without any negative effect and to benefit not only those in the organisation but the community and the environment as well. Furthermore, every organisation must avoid any activities that can harm the society such as those involving alcohol, drugs and gambling. Besides that, each company needs to remember that the *shariah* principles must be followed to protect the peacefulness among the community and environment.

The empirical analysis on 376 top and executive managers from seven financial institutions in Malaysia showed that their perceptions towards CSR implementation were in a moderate level. This finding supports the earlier research done by Phrathaban and Abdul Rahim (2005). Majority of the respondents (79 percent) agreed that the

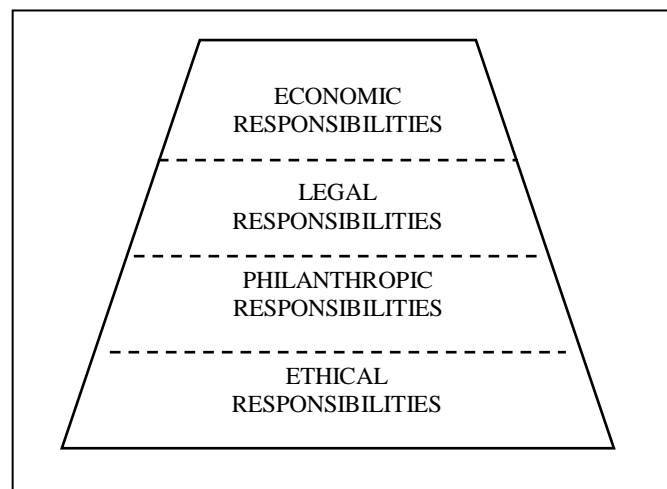
involvement of company in CSR activity was very important to ensure that the company could be progressing in the future. This finding is consistent with the previous studies done by Zulkifli and Amran (2006) and Ramasamy et al. (2007). The increasing concern about CSR commitment in Malaysia is because of the initiatives and continuous efforts by the Malaysian Government and the non-government institutions such as Bursa Malaysia, Security Commission, and Institute of Corporate Responsibility Malaysia. The Government's plan to encourage CSR can also be identified under the five-yearly Malaysian Development Plans (Amran, 2006).

The collective response from top and executive managers showed that the "local and global forces" were known to be among the main elements in financial institutions to be involved in social responsibility. This particular result supports the finding from Belch and Belch (2001). Previous research showed a positive influence between CSR and organisational success as the public preferred to consume the products and services from companies that have engaged in socially responsible activities. The analysis on the ethnic groups showed that Indian top and executive managers have ranked this factor higher compared to the respondents from other ethnic groups. The finding showed that the Indian top and executive managers were more sensitive with the changes in current business world that emphasises on social responsibility. This finding reflected the fact that most of the Malaysian Indians have a high degree of information control system (Khandwala, 1980). The study on CSR commitment showed that top and executive managers, regardless of their ethnicity and background, collectively agreed that the financial institutions in Malaysia have to give extra commitments to the community and environment. This finding is consistent with the study conducted by Rashid and Ibrahim

(2002) that confirmed the importance of company's involvement in improving community's quality of life.

Comprehensive analysis on CSR elements in financial services sector in Malaysia based on the model introduced by Carroll (1991) is as follows:

Figure 7.1
CSR Model in Malaysia



The finding showed that top and executive managers in the financial institutions in Malaysia perceived non-profit responsibilities to be the main element that should be emphasised on if the institutions wanted to survive in Malaysia. In addition, issues related to Islamic values in CSR were the second most important mechanism in ethical responsibilities. This finding showed that the values in Islamic principles in Malaysian economic system are universal and are supported by the community. Overall, the finding of this study revealed that culture gives a significant impact on people's perception, attitude, and behaviour. The finding also supported the argument expressed by Chapple and Moon (2005) and Sriramesh et al. (2007), who claimed that the way CSR is perceived and practised in Asia is not homogeneous as it is shaped by different cultures, religions and diverse socio-economic conditions.

7.3 RESEARCH IMPLICATION

A number of studies have been conducted so far in the field of CSR in Malaysia. Most of them have concentrated on the issues such as CSR disclosure and CSR reporting. Even though there were some researches on the perceptions towards CSR in Malaysia, they did not include cultural analysis. Therefore, this study is seen to have a few implications as the followings:

7.3.1 Implication on Knowledge

The results from this study have expanded the literatures in CSR. This study is able to contribute to the knowledge in the context of CSR and culture. To date, this is the only study that has been done on the perceptions on CSR issues and practices in Malaysia from the context of diversity in ethnicity and culture. Moreover, this study focuses more in sampling wider population that consisted of the seven financial institutions in Malaysia namely commercial banks, investment banks, brokerage firms, fund management companies, insurance and *takaful* companies, unit trust companies and large public fund organisations. Moreover, this study will add the CSR literature values mainly in developing country like Malaysia that has diverse ethnic groups and cultures. This study is hoped to provide the latest input for CSR theories especially for the countries that have the same social backgrounds.

7.3.2 Implication on Financial Institutions and Business Corporations

The results from this study showed that Malaysia emphasises the elements of ethnic and culture in the community. This is clearly shown from the survey that has been conducted involving top and executive managers on their perceptions towards CSR issues and practices. Based on the responsibility concept introduced by Carroll (1979), it clearly

shows that the financial institutions should consider ethical responsibilities as the top priority in their CSR policy. They should treat their employees equally without discrimination to avoid any activities that can harm the society such as those involving alcohol, drugs and gambling, and finally they should respect and understand the ethical values and cultural diversity in Malaysian society. This study is hoped to be a guide for international firms that wish to operate their businesses in Malaysia so that they will be aware of the issues of ethnicity and cultural diversity, and understand the Islamic values that have become a part of the community.

For the local and international firms that have the plan to operate in Malaysia, they need to concentrate more in activities that are related to the local community. To be seen as one of the companies that emphasises more on CSR activity, the firms should show more commitment in education, health, environmental issues, employees' welfare, consumers' protection, and ethical and cultural values. Companies that have organised social activities can achieve a few advantages such as having long term profit, enhancing competitive advantages, and boosting their image and reputation.

7.3.3 Implication on Educators and Practitioners

The results have an implication on educators around the world. The differences of CSR framework in this study enrich the CSR subject taught to students. Besides that, the educators can increase their knowledge on the latest issue and also they are able to further expand their knowledge in this field. Moreover, the CSR subject can be seen to be more flexible when reacting to changes in the surroundings. In a way, educators can play the role as the middle person to expand their students' awareness in this area.

The implications on practitioners can be seen through the advantages they can gain in order to stabilise their companies' operations. This study can also help the practitioners to make a precise decision in management. The outcome can provide useful information to both local and international practitioners in order to understand what the society needs depending on the diversity of ethnic groups and cultures in Malaysia.

7.3.4 Implication on Policy Makers and Legislators

This study gives a few implications for the policy makers and legislators. First, the results will help certain agencies to spread correct information regarding CSR issues and practices in Malaysia. Seminars and workshops can be among the places to channel the understanding to entrepreneurs and managers inside and outside Malaysia with regards of CSR implementation in this country. Moreover, it can avoid misunderstanding on the Malaysian socio-culture environment.

Second, this study can help certain agencies inside and outside Government to enhance their understanding on CSR in Malaysia. It is hoped that the CSR framework from this study can be used by the agencies involved like Bank Negara Malaysia, Security Commission and Bursa Malaysia in order to develop a CSR model that is suitable and applicable to be practised not only in the financial institutions but for all business entities in Malaysia. The model should include the unique characteristics in Malaysia that is made of multiracial communities without overlooking the international standards.

Lastly, the Government with conjunctions from certain ministries need to encourage business conducts in order to implement the programmes that can increase the community awareness, particularly business entities, on the advantages of executing

CSR. The allocation of funds for having such awareness programmes should be increased from time to time. The awareness on the importance of social activities should be instilled as early as the school level. Creative campaigns should be created by involving the youngsters and community as a whole. This is because youngsters are valuable asset whom will lead the country in the future.

7.4 LIMITATIONS AND FUTURE RESEARCH

To the best of the researcher's knowledge, this is among the earliest studies on CSR issues in the context of financial sectors from the perspective of ethnicity and culture diversity. Therefore, there are a few limitations faced along conducting the study. Among them are as follows:

Firstly; this study has low response rate. This is due to several factors such as financial constraint and limited time to collect the data, which was only within four months. The researcher believes that, without such limiting factors, this study can gain better response. If carefully observed, the low response rate can be clearly seen giving insufficient number of Indian top and executive managers. This has to an extent influenced the generalisation process of the result to Malaysian context.

Secondly; since this study involves three ethnic groups, it is hoped that the future studies will widen the study scopes to other economy sectors such as manufacturing, retail, information technology, communication, property and construction so that clearer and more detailed views can be gained regarding CSR in Malaysia. Hence, surveys of larger and more representative samples are definitely called for. This study focuses on the top and executive managers as the respondents. The future studies are hoped to do more

comprehensive comparisons between ethnicity and culture on other stakeholders such as consumers, employees, unions and local community.

Thirdly, the finding from this study has shown to us that all respondents from different ethnic groups and religions agreed that to be recognised as companies that practice CSR in Malaysia, they have to, among others, avoid from business activities that involve alcohol, drugs, and gambling. This indirectly means that the respondents supported ethical values in CSR. Therefore, more detailed studies have to be conducted to investigate the main excuses and reasons that bring such mutual consensus among those supporting the statement. Besides that, this study has also shown that there are clear differences in the CSR responsibilities between developing countries and developed countries. The Malaysian CSR model probably can be applied in other developing countries that have common diversity in ethnic groups and cultures like Malaysia.

Finally, the present study focused on top and executive managers' perception and intention to actively support responsible businesses, but did not established any link between intent and behaviour. Hence, future research efforts may want to expand the empirical study by providing actual figures on investments, sales or financing relating to CSR, expenses incurred on environmental practices, total number of donation given, scholarships and others relevant data in addition to the survey results of respondents' attitude.

Although the findings in this study found differences in the perceptions among ethnic groups in Malaysia on a few issues related to CSR, it is hoped that these perceptions are meant for producing more competitive Malaysians locally and globally, and not meant to

impede the Government's objective in establishing more united Malaysian. The introductions of a few programmes by the Government such as 1Malaysia by the current Malaysian Prime Minister, Dato' Sri Mohd Najib bin Tun Hj. Abd Razak are seen as noble and prosperous efforts in keeping and pushing up the unity of the diverse Malaysian communities to a higher level. It is this unity that has been the strength of this country and it will always be the best formula to be used now and forever. Since independence until today, the Malaysian Government has introduced a lot of efforts to narrow the socio-economic gap among the multiracial citizens. Recently, socio-economic development efforts such as New Economic Model and National Key Result Area (NKRA) have been developed and implemented as among the Malaysian Government's transformation programmes. They are with the objective to lift the living standards of Malaysians in various sectors such as education, economy and social regardless their race and heredity in order to achieve an inclusive wellbeing of the citizens.

Despite the limitations, this study has gained some perceptions from the top and executive managers in financial sectors on CSR in Malaysia from the perspective of ethnic groups and cultures. As among the earliest studies in this field, the researcher hopes that this study can be adapted by the financial institutions in Malaysia. It is hoped that this study could help the Malaysian Government in making the country as a great financial hub in the region through consolidating the CSR practices and further in gaining confidence from the local and international investors. The researcher also hopes that this study can be the stepping stone to more comprehensive and fruitful studies on CSR in the future so that the Malaysian vision to be a just and responsible country as envisioned in the Vision 2020 can be achieved.

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APPENDIX A

*Accounting and Finance Section
Cardiff Business School
Cardiff University
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E-mail: MuwazirMukhazirMR@cardiff.ac.uk

A DOCTORAL SURVEY ON

CORPORATE SOCIAL RESPONSIBILITY IN MALAYSIA

General Instructions and information:

- ◆ Please be assured that any information you provide in this questionnaire is **STRICTLY CONFIDENTIAL** and will only be used for the purpose of this research.
- ◆ Please **TICK** (✓) the appropriate answer for all sections.
- ◆ Please read each question carefully and select the answer that best describe your opinion. If you do not find an exact answer that best describe your opinion, tick the one that comes closest to it.
- ◆ If you have any comment, please feel free to use the space at the end of the questionnaire.

Please return the complete questionnaire using the stamped self-addressed envelope provided by _____

SECTION 1

[Please tick (✓) in an appropriate box]

1. Does your company have any guidelines and policy on corporate social responsibility?

	Yes
	No
	Not sure

2. How do you perceive the importance of corporate social responsibility in affecting the company's policy in the near future?

	CSR will grow in importance to your company
	CSR importance will stay the same
	CSR will become less important to your company legislation/political.

3. In your opinion, how much do you agree with the following statements?


Statements	<div style="display: flex; justify-content: space-between; align-items: center;"> Strongly Disagree Strongly Agree </div> <div style="text-align: center; margin-top: 5px;"> </div>				
	1	2	3	4	5
Business can avoid further regulation by adopting social responsibility programmes					
The increasing involvement of business in social responsibility may encourage investment opportunity					
Business should realise that it is part of the larger society and therefore it should respond to social and environmental issues					
Social responsibility and profit maximisation is two conflicting goals.					
Contributing to the solution of social problems such as poverty and crime can be profitable					
Voluntary regulation is not sufficient to ensure business involves in social activities					
Business is primarily an economic entity and it is more socially responsible when it attends strictly to its economic interest of generating profits and employment					
Corporate social programmes can help build a favourable image for a business					
A business that ignores social responsibility may have a cost advantage over a business that does not					
It is unfair to ask business to be involved in social responsibly programmes as it is already doing so by complying with social regulations and paying taxation					

Statements	Strongly Disagree ← → Strongly Agree				
	1	2	3	4	5
Social involvement may affect the survival of the marginal firm, for the high costs involved may throw it out of business					
Being socially responsible is competitively disadvantageous to the business					
Social welfare activities should be left to the government and other non-profit organisations					

SECTION 2

[Please tick (√) in an appropriate box]

4. In your opinion, what would be the motivation behind corporate social responsibility practices?

	Not Important at all Very important 				
	1	2	3	4	5
Enhance reputation and public image					
Enhance community trust and support					
Global pressure					
Government pressure					
Matching of social needs to corporate skill, need or ability to help					
Personal ethical and cultural tradition					
Pressure from special interest groups					
Pressure of general public opinion					
Profitability of the venture					
Religious responsibility					
Strategy for competitive advantage					

5. When making a judgment about corporate social responsibility, which of the following activities are perceived as important areas for business community to support?

Corporate support for:	Not Important at all ←————→ Very important				
	1	2	3	4	5
Arts and cultural activities					
Building and ground beautification					
Charitable and philanthropic activities					
Community renewal and revitalisation					
Consumer protection laws/welfare					
Employee welfare and training programmes					
Environmental protection law					
Ethical/cultural values					
Handicap hiring and training					
Ethnic groups business support					
Ethnic groups hiring and training					
Political action committees					
Pollution control					
Public education programmes					
Public health and safety					
Quality of work life programmes					
Religious practices					

6. Some academicians claim that different countries present a distinctive set of corporate social responsibility elements (i.e. economic, legal, ethical and philanthropic responsibilities). Please indicate to what extent do you agree with the following statement?

I believe that business must:	Strongly Disagree ← Strongly Agree				
	1	2	3	4	5
Disregard social and environmental responsibility involvement if its affect financial performance					
Committed to take action and disclose any violation of laws, regulations and policies such as abuse of power, fraud and bribery					
Ensure that the respect for ethical values has priority over economic performance					
Allocate some of the profits for philanthropic activities					
Emphasising on profit maximisation rather than promoting corporate social responsibility					
Refrain from putting aside their contractual obligation					
Respect and understand ethics and cultural diversity among difference ethnic groups					
Supporting charities and community projects even if there is probably no profit potential					
Involve in social welfare activities if it creates competitive advantage					
Paying tax and royalty consistently					
Treating all employees and job applicants equally without discrimination					
Help to solve social problems such as poverty, crime and illiteracy					
Enhance corporate reputation and goodwill solely based on economic strength					
Ensure that company's operations are in compliance with environmental laws and regulations					
Integrating social and ethical environmental responsibility into organisation policy					
Promoting sustainable development activities					

7. To what extent do you agree with the proposition that a firm's level of social involvement is dependent upon the national economic condition, that is more involvement in times of prosperity and less involvement in times of economic slowdown?

- Strongly disagree
- Disagree
- Undecided
- Aware
- Strongly agree

SECTION 3
RESPONDENT'S DEMOGRAPHIC INFORMATION

[Please tick (✓) in an appropriate box]

8. Please state your gender

<input type="checkbox"/>	Male
<input type="checkbox"/>	Female

9. Please state your age group:

<input type="checkbox"/>	30 years and below
<input type="checkbox"/>	31 – 40
<input type="checkbox"/>	41 – 50
<input type="checkbox"/>	51 years and above

10. Please state your ethnicity:

<input type="checkbox"/>	Malay
<input type="checkbox"/>	Chinese
<input type="checkbox"/>	Indian

11. Please state your religion:

<input type="checkbox"/>	Islam
<input type="checkbox"/>	Buddha
<input type="checkbox"/>	Hindu
<input type="checkbox"/>	Christian
<input type="checkbox"/>	Others (<i>Please specify</i>) _____

12. Please state any professional qualification that you have: _____

13. Please state your designation: _____

14. Please state the number of years of your working experience:

<input type="checkbox"/>	5 years and below
<input type="checkbox"/>	6 – 10 years
<input type="checkbox"/>	11 – 15 years
<input type="checkbox"/>	16 – 20 years
<input type="checkbox"/>	More than 20 years

15. Please indicate the profile of company that you are representing:

- Commercial bank
- Investment bank
- Brokerage firm
- Fund management company
- Insurance/*Takaful* company
- Unit trust company
- Large public fund organisation

16. Which of the following best describe the nationality of company that you are representing?

- Malaysian company
- Foreign company

17. I would appreciate if you would be able to provide your contact details for further discussion or follow up. However, if you wish to remain anonymous, you need not to complete the following information.

Name:	
Address:	
Phone Number:	
E-mail Address:	

Please tick (✓) the box if you would like a summary of the findings. Please provide your contact details in the above space.

*****Your cooperation in completing the survey is highly appreciated***
THANK YOU**

APPENDIX B

Dear Respondent,

I am inviting you to participate in my research project entitled 'Corporate Social Responsibility in the Context of Financial Services Sector in Malaysia'. I am a doctorate student from Accounting and Finance Section, Cardiff Business School, Cardiff University, UK. The study aims to survey the understanding and perceptions of financial officers towards corporate social responsibility issues and practices in Malaysia. It also involves an assessment of the impact of culture upon CSR priorities.

I hope you will be able to assist me by completing the enclosed questionnaire. All information provided will be treated as private and confidential. It will be solely used for the purposes of my study. As is normally practice in academic research, I shall not disclose the names of individuals who provided me with particular information. All data will be analysed in a collective manner and not attributed to named individuals

The survey should take approximately 15 minutes to answer. Because I realise how valuable your time is, the questionnaire has been designed so it can be completed with minimum effort. I shall be grateful if you would complete the enclosed questionnaire and return it to me in the attached self-addressed envelope.

If you have any questions or concerns about completing the questionnaire, please do not hesitate to contact me at MuwazirMukhazirMR@cardiff.ac.uk.

Thank you in advance for your time and cooperation.

Yours faithfully,

Mohd Rizal Muwazir@Mukhazir
Accounting and Finance Section
Cardiff Business School
Cardiff University
United Kingdom