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Corporate Social Responsibility Practices among the Smes in Malaysia – A Preliminary Analysis

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ABSTRACT

There are four main objectives of this study. First, to examine the level of Corporate Social Responsibility (CSR) practices in selected Malaysian small and medium enterprises (SMEs). Second, to determine the motivation for implementing CSR practices. Third, to determine the barriers to the implementation of CSR practices. Finally, to examine the attitude of twenty selected Malaysian SMEs owners towards CSR practices. This study employed a mixed method in data collection and analysis via survey questionnaires to the selected SMEs and archival analysis by examining the financial reports of those SMEs. This study found that SMEs is still lag behind in implementing CSR practices. Although they understand the benefits such as enhancing company's reputation and promote brand name, limited funds available and proper training required prevented them from implementing effective CSR practices. This study also found that the SMEs' owners have a positive attitude towards CSR practices.

Keywords: CSR; corporate social responsibility; SMEs, small medium enterprise; stakeholder theory; Malaysia

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INTRODUCTION

Corporate Social Responsibilities (CSR) is not a new issue, particularly to large companies that are listed in the capital market. However, it is not a familiar practice among the small and medium enterprises (SMEs). There exists increasing pressure for SMEs to engage in CSR practices (Fassin, 2008). It is argued that SMEs also need to practice CSR in their business activities to ensure their sustainable business performance particularly and development of the country generally. CSR is very important because through CSR, the commitment of business towards sustainable economic and social development could be achieved.

There are several definitions of CSR. One of the most popular definition is “*The social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that a society has of organizations at a given point in time.*” (Carrol, 1979). The European Commission (2011) defined CSR as “*A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.*” One more well-known definition is from the World Business Council for Sustainable Development (2000), “*Corporate Social Responsibility is 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.*” In short, CSR in the context of SMEs can be described as a means for SMEs to participate and assimilate economic, social and environmental activities and philosophies into their business strategies, management and activities. This can be done by fully utilising its financial and non-financial resources that can benefit the public and society. In addition, SMEs need to have a continuous commitment to engage as a corporate member in society, always consider the impact of their activities and transactions on society and develop the basic necessities of human needs in the lives of the society by using part of gains created by the companies (Kok et al., 2001).

Generally, CSR can be divided in two categories, from the way it evolved and developed (Perrini, 2006). The first category refers to evolution of CSR from a practical point of view, such as efforts and attempts by policy makers, companies and business entities to enhance the philosophy, activities,

initiatives and understanding of responsible behaviour and activities at every level inside and outside the companies (Tencati et al. 2004; Zadek, 2002). The second category is developed from the academic perspective. CSR evolved and advanced due to scholarly academic contributions, beginning from an abstract concept until clear association between CSR and company structures and systems of operations and definite definitions, rules, conduct, guidelines and management tools of CSR were created.

Even though CSR is not compulsory in Malaysia, many companies have started implementing it due to the advantages that they can get from its implementation. Previous studies showed that the implementation of CSR was crucial for the sustainable performance of SMEs (Stoian and Gilman, 2016; Bae and Park, 2016). For example, Russo and Tencati (2009) in their investigation among small businesses in Italy found that informal CSR strategies prevail among micro, small, and medium-sized enterprises. In the UK, SME need to respond to buyer pressure to demonstrate CSR activities so that they will not lost their customers (Baden et al., 2009) while Jenkins (2009) found that SMEs need to integrate CSR with their systems and core business to create opprtunity in product and services innovation . Murillo and Lozano (2006) on the other hand found that SMEs in Spain commit to CSR practices mainly to remain competitive and improve economic results.

However, studies on the implementation of CSR among SMEs in Malaysia are very limited. SMEs are a very important component in the economy to implement CSR (Nagypal, 2014; Hoogendoorn et al., 2015) because this business will experience rapid expansion in the future and hence, will multiply CSR activities tremendously. For example, the Malaysian government expects that SMEs will share 40% of the country's gross domestic product (GDP) by the year 2015. The current SME's contribution to economic development is 33%, slightly below the aimed amount.

Based on this, the study is motivated to examine the level of contribution and commitment of the SMEs to CSR practices which is yet to get wide attention by researchers and CSR professionals. The purpose of this study is then fourfold. First, to examine the level of CSR practices in selected Malaysian SMEs. Second, to determine the motivation to implement CSR practices. Third, to ascertain the barriers to the implementation of

CSR practices and finally, examine the attitude of SMEs on CSR practice. In a nutshell, this paper aims to explore the issues regarding motivations and barriers to the implementation of CSR among SMEs. Additionally, the attitude of SMEs towards CSR also was determined. This is important in order to examine the level of CSR practices by Malaysian SMEs.

There are a few contributions of this study. First, this study will help the government to encourage the SMEs to implement CSR by setting up new policies such as giving tax relief and certain exemption for the SMEs that implement CSR and awarding prizes or letters of appreciation recognizing SMEs that implement CSR. This is based on the findings of this study that found cost as an important obstacle for SMEs to exercise CSR.

Second, this study will highlight to the SMEs that they may gain commercial benefits through raising their reputation with the public and the government. Customers would prefer to go to the SMEs that implement CSR and have more respect and confidence to buy products or obtain services from the companies that implement CSR practices. This will make the SMEs that apply CSR to get more income and generate more profits indirectly. Besides that, they will also get benefits by reducing the income tax for their SMEs.

Finally, this study will add to the theory and body of literature on CSR particularly on SMEs in developing countries like Malaysia which is scarce in the literature. Prior studies concentrate much on CSR policy and practices among big corporations like public listed companies and in the developed countries like in the United States, United Kingdom and Europe.

This paper is organized as follows. Next is literature review followed by research methodology. Section four is findings and discussion and section five is conclusions. The last section is limitations and suggestions for future research.

LITERATURE REVIEW

CSR and SMEs

The level of the CSR practices implementation by Malaysian SMEs is not as good as the large or listed companies in Bursa Malaysia. Some of the SMEs in Malaysia are motivated to implement CSR practices while other SMEs refuse to practice it (Laudal, 2011). One of the reasons why there are different levels in implementation CSR among the SMEs is financial constraint. For example, Sharma (2000) suggests that larger sized SMEs are more sensitive to CSR issues than smaller or micro businesses particularly on the environment, possibly due to their ability to absorb fixed costs as well as having greater access to resources (Kechiche and Soparnot, 2012). These findings were supported by Ashton et al. (2017) which found that the majority of small US firms appear to be driven primarily by cost and competitiveness concerns, more than by social responsibility concerns to implement green practices.

In every organization, financial position plays an important role in doing business. Most of the SMEs in Malaysia have limited resources and cannot afford to make a contribution for CSR unlike the large organizations. Previous studies found that the company bankruptcy including SMEs during the period 1987 to 1997 was because of financial reasons (Mohamed et al., 2001). Because of this, many prior researches reason that companies that are bigger, have more resources and surplus of funds are more interested to participate in CSR-based activities as compared to smaller companies like SMEs (Chang, 2015). Williamson et al. (2006), Lepoutre and Heene (2006), Studer et al. (2005), Arago'n-Correa et al. (2008), Chen and Hambrick (1995) and Uhlaner et al. (2012) provide evidence that SMEs are reluctant to invest in CSR because of limited capital available, which is more useful to be invested to outperformed their business rivals such as product marketing and advertising. Furthermore, their existence is not well known by public (Hoogendoorn et al., 2015). Large firms however, with their power and strength in financial reserves are able to re-brand their products and services based on CSR activities. For example, large scale CSR activities will increase reputation, customer loyalty and goodwill of the company (Venter et al., 2014). Indirectly, this positive perception among outsiders particularly consumers can be leveraged to generate more sales

and revenue (McWilliams and Siegel, 2001). Previous studies have found a positive relationship between size of the firm and CSR practices (Perrini et al., 2007; Uhlaner et al., 2012; Looser and Wehrmeyer, 2016).

CSR will also be heavily invested by well-known big companies to further increase the public image. Since SMEs are small businesses, any CSR activity if embarked on by SMEs will scale down to fit with their capability. For example, large corporations may be more interested to participate in country wide CSR activities that involve thousands of the community and top level government officers like the Minister. SMEs in contrast may participate in CSR conducted in its local community with smaller community participants and include only middle level district government officer representative. Their aim is only to make their existence known among the public surrounding its business activities (Park and Campbell, 2017; Rahman and Norman, 2016).

Companies that are active in CSR activities also not merely react on the public and external perception but intelligently try to influence or shape this perception based on their wants and needs (Crouch, 2004; Secchi, 2007; Laudal, 2011). For example, the attitude of the owners of SMEs depends on the geographical areas the SMEs are located. SMEs may actively be involved in CSR if the society surrounding it is a caring society. Based on the study done by Papavasileiou et al. (2006), it was found that the owners' of SMEs in the northern parts of Greece had a positive attitude towards CSR due to local influence. Fassin et al. (2015) found that SMEs owner-manager in different countries like Belgium, Italy, Norway, France, UK and Spain have different interpretation on various CSR related terms and hence, their activities.

The attitude and role played by SMEs owner also may influence CSR practices. Hemingway (2005) and Murillo and Lozano (2006) found that personal or individual reasons are among the important motivational factors to embark CSR.

Stakeholder Theory

The choice of whether to implement CSR or not can be explained by using the stakeholder theory (Freeman, 1984). This theory posits that many

groups have a binding fiduciary duty with a firm. They include shareholders, employees, customers, suppliers, lenders, public community, government bodies and trade associations. This group either directly or indirectly helps the company to generate profit, create wealth and survive in business. Due to this, from the moral and values perspectives, the firm, or SMEs in the context of this study should “return back” some portion of their income to these group of stakeholders for their benefit via conducting certain CSR activities. Several scholars such as Worthington et al. (2008), Lepoutre and Heene (2006) and Caputo et al. (2017) argued that commitment to CSR by SMEs is highly influenced by the pressure applied by stakeholders. Besides, Ansong (2017) posits that for SMEs to improve upon their CSR practices, which will eventually result in enhanced financial performance, stakeholder engagement should be a major part of their operations.

For example, SMEs need to take care of the employees welfare such as providing adequate healthy working conditions and honest communication in sharing information. For consumers, the product and services provided by SMEs need to be of the highest quality and satisfy the customers including its after sales services. To their suppliers, SMEs need to have open and fair trade policies while for the local community, SMEs can assist the surrounding community to improve their quality of life via good social activities and contribution.

RESEARCH METHODOLOGY

This study collected data by using both primary and secondary sources. Based on Hodson (1999), data gathered via multiple documents will enhance the validity of the research as it will eliminate bias due to over reliance on single method (Yin, 2012) and allow researchers to compare the accuracy of the information (Brewer and Hunter, 2006). For primary sources, the data were gathered by randomly distributing questionnaires to the respondents such as the Managers, Directors, owners or the Senior Executives of the SMEs of twenty randomly selected companies from four different sectors namely manufacturing, construction, services, and trading. Questionnaires were mailed to the respondents and followed by telephone call to confirm that the respondents had received and participated in the survey. Self-addressed envelopes and stamps were sent to facilitate the recipients to return the questionnaires.

The questionnaires were divided into five different sections. Section A of the questionnaire focussed on the general information of the respondents such as gender, age, position and working experience. Section B of the questionnaire focussed on the first objective of this study that is to examine the level of CSR practices by the SMEs. Section C of the questionnaire emphasised more on the motivation of implementing CSR practices. The next section, Section D concentrated on the barriers in the implementation of CSR practices. The last section in the questionnaire, Section E focussed on the attitude of Malaysian SMEs owners on CSR practices.

All the questions were developed and constructed based on prior studies and past literature. A 3 point Likert point scale was used in this study because it is easier to complete, faster and increase the chances for the respondents to complete answer the questions without any bias, hence increase the response rate. Dolnicar et al. (2011) argued that the lower scale provides more valid measures which could be used without loss of predictive validity

The draft questions were reviewed and validated by several experts in the areas of CSR. The draft questions were then refined and amended based on experts' opinions. All the data collected were analysed using descriptive statistics.

The study also considered secondary data where the information was gathered from the financial reports of the twenty selected SMEs in 2012. The samples are taken from the SMEs that operated in Klang Valley because of the huge number of SMEs operating here. The financial reports were analyzed to determine whether the SMEs implemented CSR practices in their companies. The analysis was conducted by using an assessment instrument that was constructed based on a dichotomous scale of 0 and 1. 0 indicates no CSR practices while 1 represent the existence of CSR practices among the SMEs. The financial reports of the twenty selected SMEs were taken from the SMEs and the SMEs' Company Secretaries with the permission of the directors of the SMEs.

FINDINGS AND DISCUSSION

Findings from Survey of Questionnaires

Level of CSR Practices

Table 1: Level of CSR practice in Malaysian SMEs

	Indicate whether you agree with the following statements	Agree	Neutral	Disagree
1.	CSR is more obligatory to large companies than for small and medium enterprises	12 (60%)	3 (15%)	5 (25%)
2.	CSR is an important issue to establish business relations with other big organizations	12 (60%)	4 (20%)	4 (20%)
3.	CSR is an equivalent of corporate governance	9 (45%)	6 (30%)	5 (25%)
4.	CSR is the equivalent of charity	12 (60%)	3 (15%)	5 (25%)
5.	CSR includes activities for protection of the environment	13 (65%)	3 (15%)	4 (20%)
6.	CSR includes activities for protection of the employees	15 (75%)	1 (5%)	4 (20%)
7.	CSR can increase profit	10 (50%)	3 (15%)	7 (35%)

Table 1 shows the level of CSR practices in Malaysian SMEs. The majority of the respondents agree that CSR is more obligatory and significant to large companies as compared to SMEs. This is because most of the SMEs may feel that they are small business entities and therefore the implementation of CSR is not important for them. In contrast, for big organizations, CSR is has become an integral part of their strategic management (McWilliams, 2000). Chapple and Moon (2005) also found that multinational companies are likely to adopt CSR than those companies that operate solely in their home country.

The majority of the respondents also agree that CSR is equivalent to corporate governance and charity, indicating that they do not fully understand the concept of CSR that goes beyond corporate governance and charity. As argued by Enquist et al. (2008), CSR is not for charity to doing good but more for doing well, including proactive thinking to create tools that can best serve various stakeholders. This might also be due to

their unfamiliarity with the concept of corporate governance. Some of the respondents are possibly unable to figure out what the actual concept of corporate governance. However, more than 60% of the respondents understand CSR activities by agreeing that the environment and employees protection are part of CSR activities. This is consistent with Buhmann (2006) who suggest that CSR can function as an informal law to protect employees' right as well as safeguard the environment.

Finally, half of the respondents believe that CSR can generate profit for the company, supporting prior research conducted by Stoian and Gilman (2016), Choongo (2017), Kumar (2017) Agyemang and Ansong (2017), Juarez (2017), Ansong (2017) and Lopez-Perez et al. (2017) which found that CSR activities enhance firm growth and financial value for SMEs. Martinez-Martinez et al. (2017) also found a positive effect that corporate social performance has on competitive performance. The respondents in this research are confident that CSR will gain them certain benefits from the government and accumulate respect from customers. Hence, customers will buy their products or get services from the company, supporting research findings conducted by Venter et al. (2014), McWilliams and Siegel (2001) and Du et al. (2010).

These findings are consistent with the Stakeholder Theory which suggests that great sensitivity is shown by SMEs in relation to wellbeing of their employee, community and customer (Kechiche and Suparnot, 2012). It is usual for the director or top management of SMEs to have a close relationship with their employees and strong links with their immediate locality (Kinnie et al.,1999).

*Motivation to Implement CSR Practices***Table 2: Motivation of Implementing CSR Practices Malaysian SMEs**

	Indicate whether you agree with the following statements	Agree	Neutral	Disagree
1.	CSR has to be promoted by the government	13 (65%)	2 (10%)	5 (25%)
2.	SMEs can implement CSR in the availability of resources provided by state or other institutions	12 (60%)	5 (25%)	3 (15%)
3.	CSR should be resolved on the legislative level to fasten its spread	12 (60%)	6 (30%)	2 (10%)
4.	SMEs could implement CSR only with the help of proper advisers or trainers	12 (60%)	4 (20%)	4 (20%)
5.	CSR is motivated by the public relations and marketing considerations of the company	11 (55%)	6 (30%)	3 (15%)

Table 2 shows the factors that encourage SMEs to implement CSR. It was found that government support is the biggest factor with 65% agreeing . It was followed by the help or assistance given by external parties like large corporations and if it is being mandated by the government, both agreed by 60% of respondents. Only 55% believed CSR will give public relations and marketing advantages to SMEs. This finding confirms the findings conducted by Nagypal (2014) and Hoogendoorn et al. (2015) that found that SMEs are more involved in CSR practices if they receive financial support and good policy established by the government to support SMEs (Stewart and Gapp, 2014). On the other hand, Graafland and Smid (2017) found that regulation by government will induce SMEs to publish key performance indicators on environmental issues. Fitjar (2011) also found that the external pressure drives SMEs to improve their social responsibility.

*Barriers to Implement CSR Practices***Table 3: Barriers on the Implementation of CSR Practices in Malaysian SMEs**

	Indicate whether you agree with the following statements	Agree	Neutral	Disagree
1.	CSR is a very expensive concept	16 (80%)	2 (10%)	2 (10%)
2.	CSR incursa lot of costs to be implemented	16 (80%)	2 (10%)	2 (10%)
3.	CSR needs proper training	13 (65%)	3 (15%)	4 (20%)
4.	It will take a long time to implement CSR	16 (65%)	2 (10%)	5 (25%)

Table 3 illustrates the barriers to CSR implementation. It shows that the majority are unable to implement CSR because they do not fully understand the concepts and believe it is costly which will affect the cashflow of the company. This is consistent with prior studies conducted by Chang (2015), Williamson et al. (2006), Lepoutre and Heene (2006), Studer et al. (2005), Arago'n-Correa et al. (2008), Chen and Hambrick (1995) and Uhlener et al. (2012) which suggest that financial constraints limit the capability of the company to commit to CSR practices. The other reason given by the respondents on the CSR barrier is it requires a significant amount of time to implement. Since they do not understand the concept, the majority of respondents require a longer time and need systematic guidance and training for them to implement CSR. Prior studies by Cassells and Lewis (2017) show that there is a lack of knowledge of, and participation in, training related to environmental management by micro and small firms in the manufacturing sector in New Zealand. The same was found by Chakraborti and Mishra (2017) in their study on SMEs in India

*Attitude towards CSR Practices***Table 4: The Attitude of Malaysian SME Owners Towards CSR Practice**

	Indicate whether you agree with the following statements	Agree	Neutral	Disagree
1.	Responsible companies perform much more than it is needed by legislation	14 (70%)	3 (15%)	3 (15%)
2.	A responsible company is a company that complies with labor and environmental legislation	12 (60%)	3 (15%)	5 (25%)
3.	CSR is more important for companies from developed countries than for companies from developing countries	10 (50%)	4 (20%)	6 (30%)
4.	CSR is more important for the field of production than for the service sector	9 (45%)	4 (20%)	9 (45%)

Table 4 exhibits the attitude of Malaysian SMEs owners towards CSR practices. It shows that the highest number of respondents agrees to implement CSR, which is they need to perform it beyond the boundary and limit of rules and regulations. This is consistent with Jamali et al. (2009) and Quazi and O'Brien (2000) who suggest that companies should operate beyond profitability and legal stipulations to include a wider spectrum of stakeholders' and society's interest. A majority of the respondents also agreed that the company needs to comply with laws related to labour and the environment.

Only half of the respondents agreed that CSR is more significant in the developed than developing countries, which indicates that they believe CSR responsibility is equal irrespective of countries. Correspondingly, a majority of respondents concur that the CSR burden is equal between a company that operates in the manufacturing and services industries. It indicates that the respondents understand that every business can contribute to CSR in their own way without differentiating their background and line of business.

Findings from Financial Report

Data was also gathered from the financial reports of the same twenty selected SMEs. The purpose of this data collection is to know whether those SMEs apply CSR practices in their organization. The study focuses on the financial reports of the SMEs which is intended to examine whether they

really implement CSR practices in their companies. This study had analyzed the financial reports for the selected twenty SMEs for the year end in 2012. The result is shown in Table 5.

Table 5: Implementation of CSR in SMEs

Industry	Implement CSR	Not Implement CSR
Manufacturing	2	3
Construction	1	4
Services	4	1
Trading	1	4
Total	8	12

Table 5 shows that only eight out of the twenty selected SMEs implement CSR practices and the other twelve do not implement CSR practices. The majority of the companies that implement CSR operate in the services industry while companies that do not implement CSR operate in manufacturing, construction and trading. The results indicate that most of them are not implementing CSR practices in their organizations. Apparently, SMEs' owners had realized the importance of CSR practices but they do not have enough budget to implement it due to the higher costs and proper planning needed. Therefore, they do not implement it even though they intend to implement it. This is consistent with findings from the questionnaire on barriers to implementing CSR which indicates that cost is a major obstacle for SMEs in implementing CSR.

CONCLUSION

The purposes of this study was to examine the level, motivation, barriers and attitude of the CSR practices by the Malaysian SMEs. Based on the findings, it is clear that SMEs are willing to exercise CSR as part of their activities but this activity is not so important as compared to other big corporations like government linked companies (GLCs). Thus, they have a moderate level of CSR practices. In terms of motivation, factors that can drive them to implement CSR practices include benefits that had been promoted by the government for the SMEs that implement CSR in their organizations, tax benefits and respect from the shareholders and other stakeholders. However,

there are also obstacles like shortage of fund, time consuming and lack of knowledge that make it difficult for SMEs to implement CSR. The study also examined the attitude of the selected Malaysian SMEs owners towards CSR practices. Most of them realize and are aware on the importance and the benefits of having CSR practices in their organizations.

The findings of this study are consistent with the Stakeholder Theory which indicates that stakeholder interest on the particular business and organization stimulates SMEs to exercise CSR as part of their commercial activities. For example, CSR practices are largely implemented for employees, the environment, customers and the local community.

However, many hurdles also await that limit their actions. SMEs need to bear a higher cost to implement CSR, particularly in the challenging economic times where cost of operation keeps increasing and hence, lower profits recorded. Besides, proper training is needed and it will take a long time to implement effective CSR practices. These also requires SMEs to incur some extra costs out of their business capital.

Because of that, owners of the SMEs also need to broaden the factors used to take into account when making management decisions by incorporating CSR cause and effects. Entrepreneur beliefs have to be altered by promoting the benefits of CSR and avoid from viewing CSR as a mechanism of a capitalistic and profit-oriented mind. This can be achieved if the knowledge, competencies and good spirits of CSR are first exposed to students at primary schools and continuously emphasised along the educational pathway until they enter to the labour market or start as entrepreneurs.

LIMITATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH

There are several limitations in this study that can be an opportunity for future research. First, this study only focuses on the twenty selected SMEs which indicates a limited sample size. The questionnaires were only given to the SMEs in the Klang Valley area and the financial reports are taken from the year ended 2012. Possibly, the results will be different if the study is

done with a larger sample of the Malaysian companies and for many years of financial reports.

Second, there was a difficulty in obtaining accurate information in the SMEs' financial report. Some of the information on CSR activities were wrongly recorded. For example, one of the owners of the SMEs took out the money from the company for giving donation to an orphanage. However, the company recorded it as staff welfare. Thus, the results obtained from the study may not be accurate because of the wrong items recorded by the SMEs.

Finally, the information about the SMEs is too confidential. Some of the owners did not want to disclose the CSR practices that they had done for the societies such as donation because they do not want other people to know what they had done. This might be due to their feeling uncomfortable if other people know about their donations or contributions.

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