[MAN 7] THE IMPACT OF CSR PRACTICES ON BUSINESS PERFORMANCE AMONG SMES IN MALAYSIAN MANUFACTURING SECTOR

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ABSTRACT

Adapting with changing business environment, firms need to implement corporate social responsibility (CSR) practices for surviving in the industry. With regard to the various stakeholders, CSR practices in this study include sustainable practices in which related to the employees, suppliers, customers and community. The purpose of this study is to identify the level of CSR implementation and business performance achieved as well as determines the impact of CSR practices on business performance among small and medium enterprises (SMEs) in Malaysian manufacturing sector. The study has been conducted by using quantitative method via questionnaire survey. By using Statistical Package for Social Science version 22 (SPSS 22), the 119 responses which were collected from the Malaysian SMEs were analyzed. This study is important in providing information to the government and industrial practitioners in strategic level regarding the status of CSR implementation and the way to enhance business performance among SMEs. Then, it is also expected to contribute more useful information to other researchers in provide details about CSR impact towards business performance.

Keywords: *corporate social responsibility, business performance, small and medium enterprise, manufacturing*

INTRODUCTION

As facing pressure to be accountable for their environmental and social responsibilities, firms need to implement corporate social responsibility (CSR) practices when dealing with various stakeholders such as employees, customers, suppliers and society at large. In general, CSR is a voluntary basis practice in which firms proclaim their commitment to consider the ethical consequences of their business activities and to take responsibilities for them beyond legal requirements.CSR has been a part of sustainability. Targeting better environmental condition and increasing social well-being, the implementation of CSR practices can lead to improve business performance. Business performance can be defines as a set of performance management approach on the overall business performance management that enables organizations to achieve one or more objectives.

The frame for Small and Medium Enterprises (SMEs) was given with certain aspects which appropriate for the business such as the output type of the manufacturing company, number of employees hired, capital, fixed asset size, sales and other criteria.

SMEs are known to have an ability to make an innovation and competition in an economic sector. Besides that, there are also the weaknesses for the SMEs which is they does not have higher financial amount for their company. The SME master plan states that the current status of SMEs in Malaysia is comprise of 645 136 or 97.3% the total of business establishments. There were mainly 77% are microenterprises with less than 5 employees. The services sector took the lead by 90% while 6% for manufacturing and the others with 4%. The contribution to the economy is 35.9% of GDP, 65% of employment and 17.8% of exports.

CSR is an approach that should be implemented by all types of companies, especially manufacturing companies. This is because the implementation of CSR within a company is also able to contribute in improving the company's image of itself as a result of business performance that is given to the public in accordance with the practice of the CSR. There were certain barriers that prevent the SMEs to engage in CSR. This issue is also examined in this study, where it became the problems faced by the company due to the limitations of financial, less sources of information, time limitations and human factor which is not enough to cater for the exercise of this CSR. Based on studies that were conducted against several SMEs in Malaysia, the financial problem occurs because the company has low annual sales value to adopt CSR. They only focus on the production of their products on a daily basis in order to meet customer demand.

In addition, the lack of knowledge about the benefits of practicing CSR is one of the problems faced by SMEs. This problem occurs because there is no disclosure of the truth about the advantages to be gained by the company and also the local community and there are no guidelines that can emulate them to do so. "The environmental disclosure rating system has been built to assess firms' environmental disclosure that can help to solve the CSR measurement problem" (Clarkson et al., 2006). Lastly, the problem faced in implementing CSR in the SMEs is the factor of time limitations. CSR development should be done in line with the implementation of tasks in which these factors cause the company that wants to implement it should allocate adequate time. SMEs cannot afford to hire more workers due to financial problems. SMEs also face more urgent demand to enact, sustain and enhance business opportunities within relatively short time scales (Bluedorn and Martin, 2008). Therefore, the objective of this study is:
1) To identify the level of CSR implementation and business performance among SMEs in manufacturing sector.
2) To determine the impact of CSR implementation on business performance among SMEs in manufacturing sector.

The studies that have been carried out are intended to study the course and management has been done by SMEs manufacturing firms in Malaysia. This study investigates the level of sustainable manufacturing practices and sustainability performance of the firms in implementing CSR where it can help firms conduct activities in an ethical manner. Based on the studies, the most important factor to be considered is the effect of the adoption of CSR to business performance. This study is very important in providing information to industrial practitioners and government in strategic planning to enhance their business performance. It is also expected to contribute more useful information to other researcher in provide details about CSR impact towards business performance.

Besides that, this study is also expected to help in solving the problems that arise to companies in implementing CSR in SMEs to improve their management system as disclosure of detailed information on CSR and how to approach the proper guidelines in accessing it. This study also proposed several solutions to overcome the problem of industry practitioners to access CSR. Among the ways that have been expressed are the communication in exchange their opinion among the SMEs involved and celebrate best practice, learn from others, and to improve the evidence base and shows the relationship between CSR and competitiveness.

LITERATURE REVIEW

Business performance
Business performance is known as the capabilities and possibilities of the operational in term to fulfill the company's major shareholders desired in general (Smith & Reece, 1999).It is also indicates a broad concepts which represent the management, operational and the firms activities itself. The business performance also can be divided into financial and non-financial performances. It can be concluded that there are various definitions and perceptions that contribute to the aspects of the performances of the business in an organization. In this study, the business performance is measured by employment growth, profits and turnover (Blackburn, Hart and Wainwright, 2013).While from the other source, it has been expected to observe the level in business performance because of the different aspirations and potential of the owner-managers and the market context of these enterprises.

Corporate social responsibility
The communication about the organizations CSR and sustainability performances to stakeholders is important as well as the financial performances informed to the shareholders (Sutantoputra, 2009). While from the other source, it states that the CSR is an obligation to pursue policies to follow lines of action and to make decisions which are compatible with the objectives and values of the society (Boven, 1953). It can be conclude that CSR give benefits to both social and business performance. It is also contribute to the positively impact towards the environment. The advantages of CSR are to increase global business, improve quality of products and services, developing and retain corporate culture with internal and external customers, innovativeness in regard to products and the procedures, and improving ethical performance (Cegarra-Navarro & Martinez-Martinez, 2009). The company activities also address the interactions with stakeholder and the social and environmental responsibility in business operations within five dimensions such as social dimension, voluntariness dimension, stakeholder dimension, environmental dimension, and economic dimension (Dahlsrud, 2008; Marrewijk, 2003).

Employee relation
The term of employee relation can be defines as the implementation of a set of programs to improve the employees' wealth (Hami et al., 2016). Employee and consumer overview have found the advantages of CSR practices include easier retention and recruitment of employees, attracting new investors, attracting and also keeping new customers, particularly those considered as ethical investors or socially responsible (Sage, 2012). Previous studies show that there is significant relationship between the employee relations and business performance.

Supplier relation

Supplier relation is the monitoring and collaborating among the suppliers in order to improve the supplier performances (Hami et al., 2016). SMEs were found to attribute the importance while with the different weightings, to details on products and services, for example, information on utilization, the connection with suppliers, commercial partners and guaranteeing payment by a pre-agreed time limit (Santos, 2011). Direct manage of internal operations is a problem when the numbers of suppliers, markets, partners and employees pass precise levels. Indicate much and thereby increase assumption for CSR may in this condition represent a risk. However, ongoing to invest in CSR adoption may still be sensible as long as the public assumptions are in line with a pragmatic extent of performance (Laudal, 2011). It can be summarize that the supplier contribute to the CSR practices by the organizations.

Customer relation

The term of customer relation can be defined as the managing of customers in functioning to improve the customer wellbeing (Hami et al., 2016). According to Forstater et al. (2006), firms providing for non-branded or extremely price sensitive consumer division, with no connection to foreign investors or markets, acquaintance very low pressure for implementation CSR related practices. The past research study also states that the customers are affected SMEs but it is less reveal to the public. From this point of view, it can be concluded that the customer relation is affecting the SMEs.

Community relation

The community relation is better known in their functioning on implementing a set of programs or plans in order to improve communal performance (Hami et al., 2016). Implementation undertaken in the community, even when externally focused, essentially aim to satisfy internal needs, in specific those of employees. They outcome from the clear consciousness at SMEs that community that focused in social responsibility actions give impact on the satisfaction, well-being and motivation of employees with direct connection on performance, quality and internal productivity. The SMEs driver ''responsiveness to local stakeholders'' highlights the concept ''license to work'' for firms in a local community. The notion of a license to operate obtain from the fact that all of the firm needs explicit or tacit consent from public authorities, associations, political parties and other stakeholders in objective to do business (Porter and Kramer, 2006). Material and intangible assets of the firm are contemplate valuable by local stakeholders at this stage. The firm linked in mutually advantages partnerships. Thus, the firm may affect the decisions of actors in the local community and increase its local reputation by indicating social and environmental responsibility (Laudal, 2011). Based on these perceptions, it can be concluded that the community relation help to link both the organizations and local community.

CSR and business performance

There is a slightly weak association between CSR and revenue growth in short term. It shows that it may have some short term consequence of CSR implementation on business performance. It is due to the potential that CSR practices could attract more customers. However, it is uncertain whether companies could transform such the advantages of CSR into solid elements that would effectively increase their overall profitability. It is appropriate to take time for prospective customers to estimate whether a company is genuinely linked in its CSR implementation as well. Kotchen and Moon (2012) show that irresponsible behavior has strong positive effects on CSR adoption,

and that firm often perform responsible and irresponsible actions simultaneously. Although the literature has not reached a definitive consensus on the relationship between CSR and business performance, there are two major literature reviews and one narrative (Margolis and Walsh 2003) and one a meta-analysis (Orlitzky et al., 2003). It is found that the literature tends to suggest a positive relationship between CSR and business performance.

Based on the above discussion, it is proposed that CSR has significant impact on business performance, as shown in Figure 1.
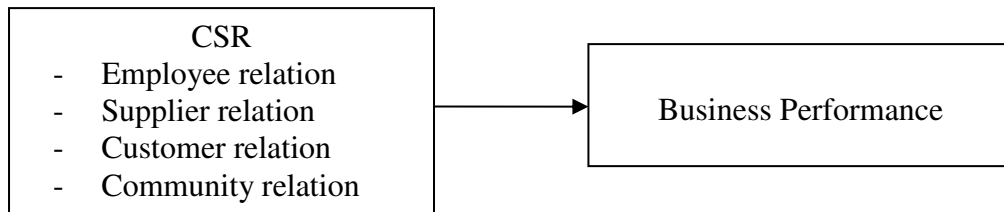
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│            CSR              │              │                             │
│   -   Employee relation     │─────────────▶│    Business Performance     │
│   -   Supplier relation     │              │                             │
│   -   Customer relation     │              │                             │
│   -   Community relation    │              │                             │
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Figure 1
Theoretical framework

Deriving from the theoretical framework, the following hypotheses are developed.

H1	:	CSR practices have a positive and significant impact on business performance.
H1 (a)	:	Employee relation has a positive and significant impact on business performance.
H1 (b)	:	Supplier relation has a positive and significant impact on business performance.
H1 (c)	:	Customer relation has a positive and significant impact on business performance.
H1 (d)	:	Community relation has a positive and significant impact on business performance.

RESEARCH METHOD

Sampling and data collection
The population of this study is Malaysian SMEs in the manufacturing sector. The unit of analysis is individual manufacturing company. Survey based approach was conducted to get primary data in this study. Initially, a set of questionnaire was distributed to the 260 potential respondents, representing 260 SMEs. Each respondent represents one different company. After discarding one invalid survey form, 119 usable responses were proceeding to the further analysis in this study. The respondents came from top to middle level management which is assumed to be knowledgeable and relevant with the topic studied including chief executive officers (CEOs), directors, production or manufacturing managers and executives.

In term of industrial manufacturing classification, majority of the responding companies are from food and beverages products (21.8%), rubber and plastics products (10.9%), wood and wood products (10.1%), and electrical and electronic (9.2%).The remaining involve in the industries of textile and wearing apparel, fabricated metal

products, machinery and equipment, non-metallic mineral products, paper products, leather and relate products, coke and refined petroleum products, printing and reproduction of recorded media, furniture, basic metal, chemicals and chemical products, and pharmaceutical products. Based on the number of full-time employees or annual sales turnover, the size of responding companies was determined. More than half of responding companies are small sized (51.3%) followed by micro (29.4%) and medium sized company (19.3%). In addition, about 31.9% and 11.8% of responding companies have ISO9000 certification and ISO 14000 certification, respectively.

Measurement scale
The questionnaire used in this study was adapted from Hami et al. (2016). The questionnaire consists of three sections. The first section relates to the background of respondent and responding company while the remaining two sections attempt to get data about the four practices of CSR and business performance. The range of the scale used to measure the extent of implementation of CSR practices and business performance achieved by responding companies is from 1 for strongly disagree to 5 for strongly agree. Before proceeding to the field survey, the measurement for this survey was validated by a group of experts (i.e. academicians) during the pretest stage. Minor correction was made to the initial questionnaire based on the comments given.

The goodness of the measures used in the field survey was tested to ascertain the validity and reliability. Factor analysis was used to check the validity of the measures while the Cronbach's alpha was used to check the reliability of the measures. The results of both tests are shown in Table 1.

Table 1
Validation results

Variables	No. of items	Item deleted	KMO	Cronbach's alpha
Business performance	9	-	0.905	0.909
Employee relation	5	-	0.746	0.785
Supplier relation	6	-	0.807	0.880
Customer relation	6	1	0.777	0.813
Community relation	6	-	0.818	0.825

Notes: KMO = Kaiser-Meyer-Olkin measure of sampling adequacy; n = 119

The first run of factor analysis was unsatisfactory since the measure of customer relation is bivariate. After removing one item in customer relation, the uni-dimensionality of this measure was confirmed. Thus, confirmed the construct validity of all variables in this study. The remaining items were tested for interim consistency reliability by using Cronbach's alpha coefficient. This test was conducted to ascertain the consistency of respondents' answers to all the items in a measure. The internal consistency reliability is higher when the reliability coefficient gets closer to 1.0 (Sekaran, 2003).The Cronbach alpha values for each of the four practices of CSR and business performance are ranging from 0.785 to 0.909, therefore confirming the reliability of all variables in this study.

Data analysis technique
Adopting quantitative analysis techniques (i.e. descriptive, correlation and multiple regression analyses), the statistical analyses in this study were conducted using Statistical Package for Social Science version 22 (SPSS 22). Descriptive analysis was

performed in order to fulfill the first objective in this study relating to the implementation of CSR practices and business performance. Responding to the proposed hypotheses which are reflected to the second objective, the Pearson correlation and multiple regression analyses were conducted to test the inter correlation between variables studied and the impact of four CSR practices on business performance respectively.

RESULTS AND DISCUSSION

Table 2 illustrates the mean and standard deviation of CSR practices and business performance.

Table 2
Descriptive results of CSR and business performance

Variables	Minimum	Maximum	Mean	Standard deviation
Business performance	1.00	5.00	4.1774	0.55937
Employee relation	2.00	5.00	4.0403	0.52438
Supplier relation	1.00	5.00	3.7157	0.68765
Customer relation	2.00	5.00	3.9765	0.58869
Community relation	2.00	5.00	3.7927	0.56497

The mean values ranging from 3.7157 to 4.0403 indicate the moderate to good level of implementation of the four practices of CSR with employee relation as the greatest level of CSR practice adopted by the responding companies. Meanwhile, the mean value of 4.1774 shows that the responding companies able to achieve slightly good business performance during the last three years. Based on these descriptive results, Malaysian SMEs manufacturers started to realize the importance of behaving socially responsible when dealing with their employees, suppliers, customers and communities for long term existence and business growth. However, there is still a need to upgrade these sustainable efforts in order to help the generation of wealth and the creation of sustainable society simultaneously.

Table 3 shows the correlation results of this study.

Table 3
Correlation results

		Employee relation	Supplier relation	Customer relation	Community relation
Business performance	Pearson Correlation	.153*	.176*	.347**	.314**
	Sig. (1-tailed)	.048	.028	.000	.000
	N	119	119	119	119

Notes: *Correlation is significant at the 0.01 level (1-tailed); **Correlation is significant at the 0.01 level (1-tailed)

The results in Table 3 indicate that there is a positive and statistically significant relationship between business performance and each of the four practices of CSR i.e. employee relation ($r = 0.153$, $p < 0.05$), supplier relation ($r = 0.176$, $p < 0.05$), customer relation ($r = 0.347$, $p < 0.01$) and community relation ($r = 0.314$, $p < 0.01$). In short, all of the four CSR practices have strong relationship with business performance with

customer relation as the strongest. Cohen (1988) suggested that correlation value range from r = 0.1- 0.29 is small strength and r = 0.30 – 0.49 is in medium strength.

Responding to the second objective of this study, multiple regression analysis was employed to analyze the impact of CSR practices on business performance. The results are tabulated in Table 4.

Table 4
Regression results

Dependent variable	Independent variable	Sig. F	R^2	Beta	P
Business performance	Employee relation	0.000	0.189	-0.530	0.626
	Supplier relation			-0.116	0.298
	Customer relation			0.360	0.001
	Community relation			0.295	0.003

Based on Table 4, business performance is significantly explained by the combination of the four practices of CSR (i.e. employee, supplier, customer and community relations) as indicated by the significant F. Thus, hypotheses 1 (H1) is supported. R^2 value of 0.189 indicates that almost 19% of variance in improving business performance is significantly explained by the combination of four practices of CSR. In-depth investigation of the individual impact of CSR practices on business performance found that only customer relation and community relation have significant impact on improving business performance as indicated by significant t.

CONCLUSION

The main objective of this study is to determine the level of CSR implementation and business performance as well as the impact of CSR practices on business performance among SMEs in Malaysian manufacturing sector**.** The findings reveal that the responding companies not fully implemented CSR practices in their business and daily operations. In general, the combination of four CSR practices contributes to better business performance. However, in-depth investigation found that only two from four CSR practices namely customer and community relations significantly improve business performance.

The results of this study are beneficial for industrial practitioners in whom it can be used as source of reference in decision making and strategy for improving business performance. Considering the limitation of this study that merely emphasize on quantitative approach, future research is suggested to conduct qualitative method to support the result of the current study.

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