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# **THE RELATIONSHIP BETWEEN ENVIRONMENTAL ISSUES AND ORGANISATIONAL PERFORMANCE**

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## **ABSTRACT**

This paper specifically investigates the elements that constitute environmental issues which lead to the successful organisational performance. The two elements namely; social concern and economic concern are integrated as tools for the organisations to exhibit their corporate responsiveness and responsibility towards societal concern and issues. The respondents were senior managers of organisations in Malaysia which practices CSR and are involved in the organisations' decision making process. As such, the sample of this study is limited to organisations in Malaysia which practice CSR and integrate CSR into the organisations' agenda. Overall, only 261 respondents from 1379 of the total population were usable and further used in analyzing the data.

**Keywords:** Corporate social responsibility, social concern, economic concern

## **1. INTRODUCTION**

Corporate social responsibility (hereinafter CSR) is how organisations maintain their values, behaviour and accountability with the expectations and needs of the internal and external stakeholders. Ideally, CSR functions as an autonomous system whereby the organisations agree to obey, and keep their eyes on the law and ethical standards in their business operations. It describes the organisations' dedication to be responsible to their stakeholders in earning the highest level of trust. It is a business's concern for the society's welfare. Through this process, organisations contribute to the society's sustainable development and accomplish their corporate social responsibility. The key role and responsibility are translated in the facets of business, social and the environment. Essentially, CSR is a continuing commitment by organisations to behave ethically, contribute to economic development and include the public's interest into corporate decision-making.

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CSR and theory of sustainability are closely related. They refer to the idea that socially responsible organisations will outperform their competitors by focusing on the nation's social problems and viewing them as opportunities in building profits and helping the community at the same time. Without sustainability, organisations cannot subsist in a business. In addition, CSR is important because the organisations' reputation is influenced directly by their customer and clients in social and environmental areas (Marrewijk, 2003).

Organisations gain better reputation and brand image in the CSR process (Waddock & Graves, 1997; Basu and Palazzo, 2008). A better reputation in business means better sales and more investors. Social performances progressively influence the investors' decisions to invest. In addition, social and environmental responsibilities reduce operating costs that leads to higher profit for the organisations.

Eventually, CSR enables the strategic management of internal and external risks in social and environmental areas. This allows the organisation to plan short term strategy and in addition to sustain growth. In the long run, organisations achieve the suppliers', business partners', and customers' confidence and loyalty. As such, the products and services of the organisations increase and escalate to maximize profit. Organisations that address concerns of more socially conscience consumers in their strategic and day-to-day decision making process, are able to place themselves at a competitive advantage against the competition. These CSR practices are synchronous with the community's philosophy and sustainability development in a market driven society.

This paper examines the elements of CSR since these elements are important to the CSR practices and determine the level of CSR. The constructs help in developing the theoretical understanding of the processes through which CSR is practiced. Hence, this study measures the CSR practices of the multidimensional constructs based on the stakeholder's theory. Consequently, the motives of the study propose that organisations which comply with environmental rules and regulations, and simultaneously build stakeholders' relationship would gain better economic wealth, achieve competitive advantage and maintain an ecological balance. Moreover, the social programmes carried by organisations promote goodwill, public favor, and corporate trust which contribute to the long-run success of the organisation and profit. Ultimately, socially responsible initiatives enhance an organisation's image and business in general. Accordingly, this paper examines how CSR is perceived and implemented by organisations in developing countries since there is limited knowledge in these areas (Al-Khatib et al., 2004; Banerjee, 2002).

Furthermore, a comparative survey of CSR in 15 countries across Europe, North America and Asia by Welford in 2005 speculates CSR as being less prevalent in developing countries such as Hong Kong, Malaysia, Mexico, and Thailand. This is based on the low response rates. More specifically, Malaysia is generally the weakest in terms of CSR performance as compared to Thailand, which is relatively strong on external aspects (such as child labor and ethics) and Hong Kong being generally better on internal aspects (such as non-discrimination and equal opportunities).

## 2. THEORY UNDERPINNING - STAKEHOLDER THEORY

CSR is an organisation's integration of social and environmental concerns into its business operations and interactions with stakeholders. Clarkson (1995:106) define stakeholders as *"persons, or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past present or future."* Ullmann (1985) asserts that stakeholders' theory and CSR activity are linked by signifying the stakeholder's power, organisations' strategy, the organisations' past and present economic performance which are interconnected between social disclosure and economic performance. Clarkson (1995) asserts that transmitting corporate social responsibility into business management is best undertaken through stakeholder orientation. Similarly, Polonsky (1995) agrees that the stakeholder's theory is enormously appropriate in applying into environmental marketing since it offers a process that permits organisations to develop an environmental strategy which satisfies both the goals of the organisations and their stakeholders'.

The key success factor to survive in mature markets relies on sustaining long-term relationships with stakeholders (de Madariaga & Valor, 2007). Post et al., (2002) impose that it is the organisations' capability to establish and maintain relationships within their entire network of stakeholders that verifies their long-term survival. Relationships involve on-going arguments and mutual elements which engage the interactions and network of stakeholders that create, sustain, and enhance its value-creating capacity of organisations (Clarkson, 1995). As such, stakeholders have a strategic and/or moral stake in the organisation, and each is guided by its own interests and values. Porter and Kramer, (2006) conceptualize that CSR deals with shared values in which the value influence strategy chosen guides managers in their CSR decision-making (Pant & Lachman, 1998) that eventually shape actions (Waldman et al., 2006). Therefore, the organisations must align their CSR programmes with the CSR stakeholders' values (Maignan et al., 2005). However, organisations need to focus on more diverse social concerns or issues which directly or indirectly affect its relationship with internal and external stakeholders (Maignan et al., 2005). Hence, it is through social performance that organisations express their responsiveness to social issues (Wood, 1991).

## 3. LITERATURE REVIEW

Researchers argue that environmental issues are gradually causing a significant impact on an organisation's daily operation and in the long run, affecting the organisation's performance (Newell, 2005; Jenkins & Yakovleva, 2006). In fact, it is the organisations' obligation to preserve the ecological environment and general public interest since social concern and environmental issues are now being considered as external issues (Ginson, 2006). Therefore, organisations need to integrate social concern and environmental issues into their strategic decision-making process in order to embark upon the environmental problems facing the organisations. If organisations ignore social concern and environmental issues, subsequently the political system will undertake these issues and convert them into new regulations or new laws (Kilcullen & Kooistra, 1999). These new regulations and laws could restrain the managers in making decisions. Indeed, the focus on both the social and the economic concern the so-

called “business case for CSR (Carroll and Shabana, 2010:102) identify that “CSR impact on economic/firm financial performance is not always favorable.” Organizations are encouraged to integrate CSR activities with the blend of economic objectives and social objectives as to gain the support from their stakeholders.

Concurrently, in explaining the elements of economic concern which blends the concepts of the organisations’ goals on social performance, entrepreneurship orientation and marketing strategies, this study applied the concept of enviropreneurial marketing which was introduced by Varadarajan (1992). Enviropreneur refers to “a person who is organizing and assuming the risks of, and managing the activities of, a business enterprise pursues environmentally responsible (environmental–friendly) policies, procedures and practices (Varadarajan, 1992:342). Varadarajan adopted the perspective of an entrepreneurial approach toward formulating and implementing environmentally-based marketing strategy by providing exchanges which satisfy organisation’s environmental, economic, and social performance objectives. Concisely this approach enable organisation to meet consumers’ demand as well as to maintain a competitive position in the market place (Menon and Menon, 1997; Baker and Sinkula, 2005).

Initially, the organisations’ goals and objectives are to earn the society’s highest trust by meeting the public’s expectations and fulfilling its social responsibilities (Mutch and Aitken, 2009). Societies in general expect more from the organisations from whom they purchase. Thus, the blend of enviropreneurial marketing practices in the organisations’ marketing strategies will improve the social and environmental performance, as well as, yield to competitive advantage and economic benefits simultaneously. Through an extensive review of pertinent literature, two constructs of organisational CSR have been identified. They are social concern and economic concern. The following are the dimensions of social concern and economic concern:

1. Social concern that consist of:
  - a) public concern
  - b) regulatory forces
2. Economic concern that consist of:
  - a) Environment as commitment
  - b) Environment as opportunity

### **3.1. Social Concern**

Dahlsrud (2007) refers social concern as the relationship between organisations and society where organisations integrate social issues in their business operations, consider the impact of their business on society and finally contribute to a better society. (*The term social concern and stakeholder issues is using interchangeable in this study*). Jones (1994:100) and Mitchell et al., (1997) contend that organisations make decisions based on the demands and claims which stakeholders have on organisations. Essentially, this means that the stakeholders have some power and influence over the organisations’ management (Maignan & Ferrell, 2004; Miles & Munilla, 1993) whereby stakeholders have the ability to withdraw from, or threaten the

organisations (Miles & Munilla, 1993). Nevertheless, with limited organisational resources, organisations cannot possibly address all the stakeholders' issues/demands. In addition, this stakeholders' power influences the urgency of the stakeholders' issues which organisations face, especially in being environmentally friendly and socially responsible (Miles & Munilla, 1993).

To date, issues such as global warming, ozone depletion, air and water pollution and deforestation are recognized as global environmental problems or stakeholders' issues which require urgent solutions, along with regulation, concern that have induced organisations to instill environmental values into their corporate ethics (Ibrahim et al., 2003). Subsequently, organisations are now under pressure to demonstrate initiatives that take a balanced perspective on the stakeholder's interests (Maignan et al., 2005). Therefore, it is a requirement that organisations meet their ethical and moral responsibilities by adopting eco-orientation in response to the increased pressures and demands by the society (Ibrahim et al., 2003).

Consequently, building on this backdrop, this study conceptualized social concern as one of the constructs of CSR in which public concern and regulatory forces are identified as the main targets of the stakeholder groups, and corporate environmental problems as the main organisations' social concern. Ibrahim et al. (2003) claim that governmental regulators, as external stakeholders, advocate greater corporate responsiveness to the society's needs by playing a more active role in overseeing managerial decisions. Researchers like Banerjee (1998) and Maxwell et al., (1997) agree that external pressures, specifically public concern and legislation are rising and have forced organisations to incorporate environmental issues into its strategic planning process. The reasons for choosing the two variables are discussed in detail in the following sections.

### **3.2. Public Concern**

Stisser (1994) asserts that public concern for the environment is growing deeper every year whilst Banerjee (1998) believes that the increased public concern will influence environmental orientation and strategies. Stakeholders play some major roles in deciding what organisations should do with regards to environmental concern. Banerjee (1998) stresses that one of the ways organisations can take into account the needs of all their stakeholders is by responding to public concern for environmental protection. Indeed, Rao (2005) agrees that being sensitive to environmental and ecological effects of organisational practices, and being responsible in improving the life of the community are some of the CSR practices. Generally, when talking about societal expectation or public concern; the issues will be focused on products being produced by organisations. This is consistent with Banerjee et al.'s (2003) definition of public concern as:

1. an external political force exerted by community stakeholders which could partly be represented by environmental activists and
2. partly represented by customers who demanding environmentally friendly products.

Therefore, based on Banerjee et al (2003) definition, public concern consists of two parties: environmental activists and environmentally friendly customers.

### **3.3. Environmental Activists**

Since the 21<sup>st</sup> century, the increased levels of consumer ecological activism have placed additional pressure on organisations to be more aware of the effects on the local ecology (Stone et al., 2004). High public concern about the environment emerged in the 1980's and the prominent issue increased over the next few years among business leaders (Stisser, 1994). Lewis (2003) reports that since the late 1970's, *the public's perception on the role of organisations in society has changed significantly. The consumerism movement began in the early 1970's "that focuses on identifying and classifying market segmentation purposes consumers who will practice socially responsible purchasing with respect to the environment"* (Drumwright, 1994:1) Therefore, it is pivotal for managers to interpret environmental issues faced by their organisations as an attempt to understand the development of pro-environmental organisations behavior. In addition, Kang and James (2007) quoted that the condition of the society being well at large depends on the condition of the environment. Accordingly, Banerjee (1998) asserts that organisations could fulfill the needs and wants of all their stakeholders by corresponding and being answerable to the public concern on environmental protection.

More and more companies are positioning themselves as environmentally responsible organisations as the way to capitalize public interest in green issues (Jay, 1990). Essentially, green marketing conveys the message of the ecological role on marketing organisations. It promotes not only the sensitivity that marketing activities may bestow on the natural environment but also encourages practices that might reduce any damaging impacts (Lozada, 1999). Since the millennium, the increased levels of consumer ecological activism have placed additional pressure on organisations to be more aware of the effects on the local ecology (Stone et. al., 2004). All these examples entail that the local environmental pressure does have an impact on the level of ecological responsibility exhibited by the organisations (Stone et. al., 2004).

### **3.4. Environmentally Friendly Consumers**

Consumers' demands for green products are increasing and according to Dummett (2006) there is a link between production and environmental degradation. Thus, organisations could take this advantage by differentiating themselves in the market place and positioning themselves through corporate environmental responsibility. Similarly, corporate environmental responsibility is becoming increasingly important to organisations since the issues of public awareness and concern for the environment are growing (Shetzer et. al., 1991).

Organisations have a responsibility towards the society, to respect environmental considerations, take care of public concern and provide facilities for consumers' well-being such as not to misuse the scarce factors of production, and be more sensitive and alert about the effects and potential dangers of pollution, noise, waste disposal; and maximize the use of biodegradable materials. Furthermore, the organisations feel the pressures to consider the

natural environment arise from a multiplicity of sources such as; regulation (Sanchez, 1997); internal management (Drumwright, 1994); strategic considerations (Shrivastava, 1995) and market forces (Menon & Menon, 1997).

In addition, Namiki (1984:6) purports that *“the goals of CSR programs would be to gain public acceptance of the legitimacy of business and to bolster public belief that business and corporate leadership operate in the public interest, serve legitimacy public expectations and help advance, not undermine, societal goals.”* For that reason, Namiki (1984:5) strongly believes that *“the development of understanding by measuring public opinion or concern is a necessary prerequisite for developing appropriate CSR programs...”*

Azzone et al. (1997) admit that external pressures from public opinion, regulations, and the green movement have led the organisations to consider the natural environment in strategic management. Recently, Qu (2007) and Dummett (2006) consent that government regulation is among the most significant predictor of CSR and corporate environment responsibility. As such, the study will further discuss about regulatory forces.

### **3.5. Regulatory Forces**

Among the various external stakeholders, regulatory stakeholders have long been perceived as the most significant driving force for corporate greening in developed (Fischer & Schot, 1993) as well as developing countries (Steger et al. , 2003). Regulatory forces are the important stakeholders that influence business strategies in the actions imposed by them (Wood, 1991). Examples of regulatory forces are government and law enforcements. The government plays the role of administrator and law-maker, while the private sector concentrates on the infrastructure, promote research and development, education and embark on new technologies. In addition, the government’s role is also to protect the “social interest” through an appropriate legislation (Wood, 1991) that has become the major pressure on businesses to act in a more environmentally concerned manner (Barakat & Cairns, 2002).

The organisations’ decision-making is influenced by environmental regulations and this has been growing steadily in both developed and developing countries for years (Banerjee, 2001). It is one of the major factors influencing company environmental strategy (Banerjee, 2001), and the tougher regulatory forces and increasing public environmental concern have led to the development of environmental strategies (Banerjee, 1998). Buysse and Verbeke (2003); Chan (2010) assert that regulatory forces are corporate responsiveness towards environmental issues. Banerjee et al. (2003) indicate that regulator mandate compliance to environmental standard is important antecedents to environmentalism. Furthermore, strict environmental regulations will lead to a competitive advantage (Porter & van der Linde, 1995). Therefore, it is practical to expect a major increase in the government’s influence on marketing decision making through the establishment of performance standards.

If organisations do not react appropriately to the social concern or are not concerned about the human’s welfare when producing products or services, the political system instead will address this issue, and eventually transform them into a legislation or a law. This can be seen



as business irresponsibility which could lead to new rules or regulations, and in some cases lead to the formation of new regulatory bodies. On the other hand, organisations that respond to government regulators and stockholders would remain competitive in the world market (Berry & Rondinelli, 1998).

### **3.6. *Economic concern***

Frederick (1960) defines social responsibility as a business overseeing the operation of an economic system that fulfills the expectations of the public and enhances the total organisations socio-economic welfare. Dahlsrud (2007) refers these socio-economic or financial aspects which describe CSR in terms of an organisation's business operation and in the long-run preserving the organisation's profitability. Essentially, corporate strategy is an organisation's decision that reveals their objectives, purpose or goals, policies and plans in achieving those goals. It defines an organisation's directions, the kind of economic organization they intend to be, as well as the nature of the economic and non-economic organisation they intend to contribute to their shareholders, employees, customers and communities (Andrews, 1987). Ansoff (1980) alleges that if organisations choose to be strategic, it must be relevant to the organisation's development as such issues have a significant impact on an organisation's capability to congregate their objectives.

CSR is ultimately a strategic issue which cannot be disengaged from an organisation's overall strategy (Andrews 1971; Carroll & Hoy, 1984). Porter and Kramer (2006) emphasize that organisations which intend to undertake CSR in a strategic manner by making social and environmental contributions, must also be able to create tangible business benefits; profit maximization, sustainability and competitive advantage. Owen and Scherer (1993) indicate that socially responsible corporate actions have an effect on the market share and thus have an effect on competitive advantage. Indeed, social responsibility is also a long-term investment decision that leads to win-win strategies (Burke & Logsdon, 1996) in which the function of organisations is as a social purpose which is consistent with the organisation's long-term economic interests – sustainability. CSR and corporate sustainability represent how organisations achieve enhanced ethical standards, as well as, balance the economic, environmental and social imperatives that address the concerns and expectations of their stakeholders. Wilson (2003) specifies this corporate sustainability as an evolving concept that managers are adopting as an alternative to the traditional growth and profit-maximization model. Furthermore, organisations need to show that making profits is not corporate greed but as a way to win the society's confidence, and that what is offered by organisations is valued (Matsushita, 2000). "Environment as opportunity" and "environment as commitment" from Baker and Sinkula (2005) are adapted as the elements of economic concern.

### **3.7. *Environment as Opportunity***

Even though environmentalism impose many challenges, it also presents many opportunities for organisations to capitalize on the demand for greener products (Ottman & Terry, 1998). Varadarajan (1992) acknowledges that organisations see the environment as an opportunity, and simultaneously achieve a competitive differentiation advantage. Quazi (2001) reveals that

organizations which have activities related with the environment would open up many new entrepreneurial opportunities. This type of organisational behaviour is proof to customers and the masses that organisations are sensitive to environmental issues, and are socially responsible as well (Quazi, 2001).

Organisations can translate environmental concerns into business opportunities and use environmental strategies to leverage competitive advantage (Maxwell *et al.*, 1997; Porter & van der Linde, 1995). Moreover, competitive strategies driven by environmental concerns come in different forms: least-cost strategy, differentiation strategy and niche strategy (Shrivastava, 1995).

Nevertheless, to be ahead of other organisations, organisations must be alert and effective in recognizing how to turn environmental issues into an opportunity. That being the case, organisations can explore opportunity from knowledge gained through the markets, customers' needs and the social issues by introducing new consumer offerings, developing new processes or creating new market segments (Jacobson, 1992; Hill & Deeds, 1996; Chan & Mauborgne, 2005). Intrinsically, organisations can fulfill their responsibilities by meeting societal demands and create both economic benefit and consumer utility (McWilliams & Siegel, 2000; Mackey *et al.*, 2007; Husted & Salazar, 2006). Therefore, managers in organisations which are proactive in strategic environmental planning will be able to deal with environmental issues more effectively (Banerjee, 2002). This explanation is concurrent with Hamid (1997) who denotes that management who fail to incorporate environmental issues into their strategic planning before their competitors might lose out on opportunities in the market place.

Langerak *et al.*, (1998) identify that organisations which voluntarily adopt green marketing are able to exploit green market opportunities and improve business performance. Indeed, organisations which show concerns for the natural environment, find themselves being empowered by the opportunities they see and discover opportunities which others have missed (Keogh & Polonsky, 1998). Hostager *et al.* (1998) identify that organisations which are able to recognize environmental opportunities have a tendency of having a larger pool of new ideas within their organisations, have better chances for financial success, and gain significant economic as well as non-economic benefits.

### **3.8. *Environment as Commitment***

Baker and Sinkula (2005:467) define environment as a commitment in which organisations focus on environmental marketing strategies which takes the form “*of investments (financial and non-financial) that are very substantial and visible*” and also considered to be “*commitment that are irreversible.*” To them, environmental issues may include a marketing strategy development in the form of commitment. They believe that this commitment to the environment defines the strength or weakness of the organisations' enviropreneurial marketing efforts and its ultimate influence on corporate behaviour. Conversely, Keogh and Polonsky (1998) define environmental as a commitment that requires the organisations' and their individual member's consideration of environmental concerns. These two groups of researchers define 'environment as commitment', while Henriques and Sadorsky (1999) define it as whatever a company is doing currently or in the past which involved environmental issues.

Commitment, vision, entrepreneurship and opportunity process are connected with each other in which commitment fosters vision (Keogh & Polonsky, 1998). Lober (1997) purports that entrepreneurs tend to integrate and derive opportunity from a combination of problems, policies, organisation and social/political/ economic factors. Furthermore, those entrepreneurs identify these combinations and recognize the opportunities it provides to embrace change in the organisation's strategic decision. Thus, commitment and vision enables entrepreneurs to identify opportunities from various streams and sources mentioned by Lober (1997). Additionally, the commitment and vision created allow "*entrepreneur sees resources, the value of those resources and the manner in which those resources can be brought together to capitalize on opportunities*" (Keogh & Polonsky, 1998: 44).

Stisser (1994) indicates that an organisation's efforts in making a substantial long-term commitment to the environment can result in improving the public's attitudes towards the organisations themselves. In fact, environmental reactivity is associated with higher pressures from regulatory stakeholders (for example the governments, trade associations and the media). These same stakeholders demand a greater environmental commitment (Henriques & Sadorsky, 1999). Finally, both 'environment as opportunity', and 'environment as commitment' lead organisations to "*achieve a competitive differentiation advantage,*" Varadarajan (1992:342).

#### 4. ORGANISATIONAL PERFORMANCE

The dimensions of CSR in this paper are presented as tools in promoting sustainable development. Fundamentally, organisations must link CSR practices with their overall strategies in achieving business excellence (Maon et al., 2009; Jan & van Pijkeren, 2006; Bhattacharya & Sen, 2004). Organisations engage in socially responsible behaviours to fulfill external obligations such as regulatory compliance and stakeholder demands, and to increase competitiveness and improve stock market performance (Bansal & Roth, 2000; Drumwright, 1994; Klassen & McLaughlin, 1996; Russo & Fouts, 1997; Waddock & Smith, 2000). This is in consistent with a study conducted by Aupperle, Carroll and Hatfield (1985) which indicated a positive relationship between social responsiveness and business performance. Furthermore, Spicer (1978) in a study of eighteen pulp and paper corporations found that the best environmental performers enjoyed higher profits and lower perceived risks, while Klassen and McLaughlin (1996) suggested two factors; market gains and cost savings as the outcomes of superior environmental performance. Waddock and Graves (1997) contend that CSR is positively and significantly related to both future and prior financial performances.

Being branded as green organisations can be a potential benefit to business organisations (Grundey & Zaharia, 2008). Concurrently, Marshall and Mayer (1992) declare that the green image could generate a more positive public image which in turn enhances sales, increase stock price and open access to public capital markets. Hanas (2007) contends that intangible values such as employee's motivation and satisfaction, plus brand loyalty are increasingly being linked to corporate performance. In 2003, a study conducted by Orlitzky et al., showed a significant positive effect of corporate social/environmental performance on corporate financial performance.

Good performance is crucial to organisations. Yet, having a good performance is not enough in our highly competitive environment today. Organisations need to identify the environmental issues and problems as an important competitive differentiation element and turn them into a source of competitive advantage. Organisations are required to be decision-driven that convert the organisations' objectives into actions and embrace environmental sustainability factors into their marketing strategies. This creates superior value and gives a competitive advantage, which allows them to out-perform their competitors. Good and high-performance organisations contribute not only to the successful performance of the organisations, but also to good society and being good corporate citizens. Managers in these high-performance organisations are competent to respond to changes in the environment, meet customers' demands and requirement, able to modify the work process to enhance performance and finally contribute to the community (Day, 1994). Eventually, organisations that implement environmental initiatives in their strategic decision making not only ameliorate the organisational performance but also protect the environment. Following the above-described CSR classification and the relationship with organisational performance this study hypothesized that:

*H1: Social concern is positively related to organisational performance*

*H2: Economic concern is positively related to organisational performance*

## 5. METHODOLOGY

### 5.1. Measurement Scales

#### 5.1.1. Social Concern

Social concern in this study refers to the organisations' environmental issues in which organisations need to integrate into their strategic plans. Eventually, environmental issues can influence business strategy. Thus, keeping pace with the public's concerns and responding to regulations as part of the business environmental strategy, indicate the organisations' responsiveness to environmental concern. The concept of social concern (Banerjee 2002) which consists of public concern and regulatory forces are considered as important antecedents to environmentalism (Banerjee et. al., 2003). In an effort to examine this concept, the scale by Banerjee et al. (2003) was adopted and extended for the purpose of this study. Furthermore, the scales were applied to examine the forces behind the implementation of environmental strategic decision planning.

#### 5.1.2. Economic Concern

Economic concern reflects the organisations' orientation and commitment to balance both organisational and societal concerns through the process of marketing strategies. This process represents the organisations' social, environmental and economic objectives simultaneously. As such, the study employs the scale proposed by Baker and Sinkula (2005). The items used in the 'environment as opportunity' were designed to "achieve a competitive advantage". Menon and Menon (1997:53-54) "*saw environmental concern as an opportunity*" and "*environment as commitment*" that focused on environment marketing strategies which take the form "*of*

*investment (financial and non financial) that are very substantial and visible.”* and at the same time are *“commitments that are irreversible”* (Baker and Sinkula, 2005:467). These scales demonstrate that besides environmental concerns as part of an organisation’s commitment, it also provide abundant benefits which organisations gain by incorporating environmental strategy into their strategic decision making.

### ***5.1.3. Organisational Performance***

The categories of the measurement in the scales measure organisational performance and organisational effectiveness. Respondents were asked to state their organisations’ performance in the last three years. A Likert Scale ranging from (1) ‘Decrease of more than 20%’ to (7) ‘Increase of more than 20%’ were used. Scales from Narver and Slater (1990), and Baker and Sinkula (1999) were used to assess the organizational performance. The items consist of: growth in sales, growth in market sales, and growth in new products/services development, brand loyalty, corporate reputation, overall employee commitment and overall performance measured by firm goals and objectives.

### ***5.1.4. Sample and Data Collections***

The sample frame is from the Federation of Malaysian Manufacturers Directory and Bursa Malaysia. Stratified random sampling was used where the population is first divided into manufacturing and service organisations. The biggest challenges for selecting the right sample was to determine whether the company involves CSR in the strategic decision-making and being innovative is one of the company goals. These characteristics of the companies were determined through the company website, the company mission and objective and also called up the company personally asking whether they practice CSR in the organisation.

Overall, only 261 respondents’ responses from 1379 of the total population (a response rate of 18.9%) were usable and a total of eleven questionnaires were rejected. This response rate is considered satisfactory as this scenario is similar to other surveys conducted in Malaysia, which usually receive a standard response of between 15-25 percent (Sarachek and Aziz, 1983; Othman et al., 2001). At the end, the data collection process was completed with 261 questionnaires coded and used further for data analysis.

The data collection method used self-administered questionnaires based on the fundamental constructs proposed in the conceptual model. These constructs were operationalised by multi-item measures using 7 point Likert-Scales format, anchored by “Strongly Agree” (7); “Agree” (6); “Slightly Agree” (5); “Neutral” (4); “Slightly Disagree” (3); “Disagree” (2); “Strongly Disagree” (1), and the items used to quantify them were adopted from previously tested scales.

## **6. RESULTS**

An exploratory and confirmatory factor analysis was performed to check and verify the four factor-solutions. The exploratory factor analysis (EFA) shows that a three-factor rather

than a four-factor solution is more stable. Environment as commitment and environment as opportunity items form a single factor, reducing the factors extracted to public concern with 3 items, regulatory forces with 6 items and environment as commitment-opportunity with 3 items. For this study, factor analysis under the extraction method of principal component analysis with the rotation method of varimax with Kaiser Normalization was used to analyze the scales. Varimax rotation was used because it minimised the correlation across factors and maximized within the factors. This helped to yield 'clear' factors (Nunnally, 1978). Nunnally (1978) posits that items with loadings higher than 0.50 on one factor are retained for further analysis. However, this study retained items with a coefficient of 0.4 and above as it indicates a reasonable and sufficient loading (Lee and Crompton, 1992; Gorsuch, 1983). As a result, 5 items were deleted. The entire new factors were checked for reliability: public concern (.766), regulatory forces (.826), and environment as commitment-opportunity (.762). Table 1 depicts the final items and loading used in this study.

**Table 1:** Measurement Model

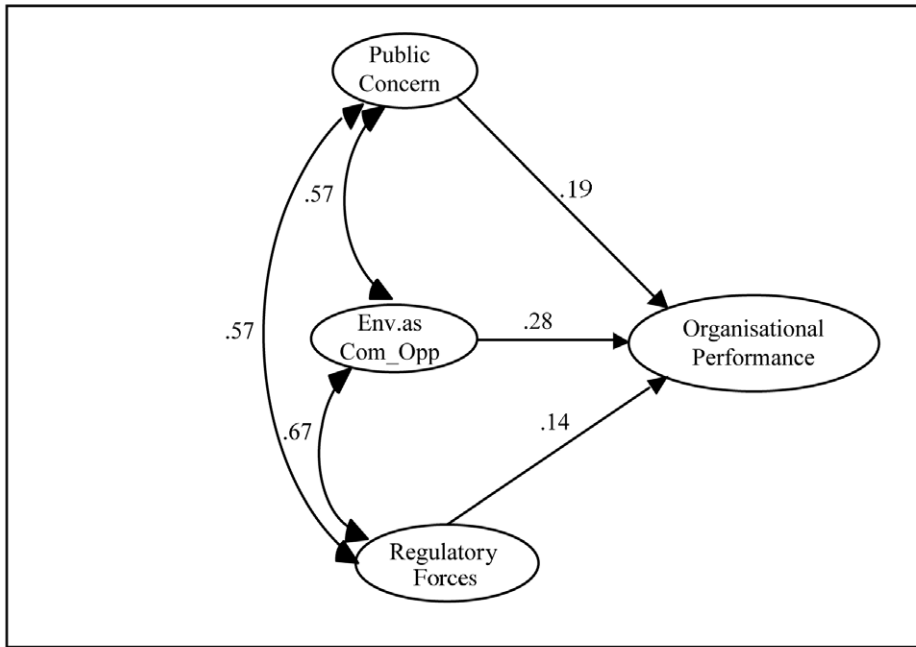
Construct	Item <sup>a</sup>	Loading
<b>Public concern</b>	Our customers feel that environmental protection is important issue facing the world today	.724
	Malaysian public is very concern about environmental destruction	.760
	Our customers demand environmentally friendly products and services	.808
	The public is worried about the economy than environmentally protection(R)*	-
	Our customer expect us to be more environmentally friendly*	-
<b>Regulatory Forces</b>	For question 1-4: The government environmental regulation and legislation: influenced our organisation's environmental strategy	.601
	can affect the continued growth of our organisation	.733
	are the reason why our organisation is concerned about the natural environment	.671
	are required so that only organisations that are environmentally responsible will survive and grow	.780
	Our organisation's environmental efforts influence the future environmental legislation	.591
	Our industry is faced with strict environmental regulation	.439
<b>Environment as Commitment</b>	In our strategy development, environmental issues are treating as: an opportunity to create a strategic advantage*	-
	a result of compliance or social obligation rather than a proactive strategy(R)*	-
	form of investments (financial and non-financial) that are very important	.592
<b>Environment as Opportunity</b>	In our strategy development, environmental issues are treating as: market opportunities	.804
	form of commitments that are irreversible	.709
	an individual's tactic to enhance economic performance (R)*	-

**Notes:** (R) Indices items that was reverse-coded

a. Scales ranging from 1 (strongly disagree) to 7 (strongly agree)

b. Items that were delete

**Figure 1:** Structural Equation Model for CSR Dimensions towards Organisational Performance



The goodness-of-fit (GFI= 0.947), Tucker-Lewis Index (TLI = 0.946), comparative fit index (CFI= 0.958), RMSEA (.060) and RMR (.0381) reflect an acceptable fit (Figure 1). Apart from assessing the overall fit of the measurement model, the critical ratio (t-test) for the factor loading is often used to assess convergent validity. This is because when the factor loadings show the statistically significant, then convergent validity exists (Dunn et al., 1994). The magnitude and direction of the estimated parameters between latent variables and their indicators are also examined for convergent validity (Steenkamp and Van Trijp, 1991). Table 2 exhibits the results of the magnitude, direction and statistical significance of the estimated parameters between latent variables and their indicators. Table 3 illustrates the relationship between the constructs of the study. Overall, the results of the correlation exhibit the existence of a significant relationship among the constructs of the study.

The dimensions of CSR namely: public concern, regulatory forces, and environment as commitment-opportunity, are tested against organisational performance. Table 4 shows the result of the hypotheses testing. The result indicates that **environment as commitment-opportunity** appeared to have the highest positive significant relationship with organisational performance ( $p \leq 0.05$ ). This is not surprising because organisations that are committed in balancing societal concern with organisation goals are described as entrepreneurs who are always searching for new knowledge, creative, are very innovative and are risk takers in nature.

**Table 2:** The Magnitude, Direction and Statistical Significance of the Estimated Parameters between Latent Variables and their Indicators

Latent	Indicator	Standardized Reg. Weigh	Standard Error (S.E)	Critical Ratio (C.R)	P
Public Concern	→ PC 1	0.696			
	→ PC 2	0.713	0.104	9.271	***
	→ PC 3	0.761	0.113	9.241	***
Regulatory Forces	→ ERL 6	0.558			
	→ ERL 5	0.706	0.101	8.192	***
	→ ERL 4	0.705	0.101	8.147	***
	→ ERL 3	0.756	0.101	8.393	***
	→ ERL 2	0.739	0.109	8.485	***
	→ ERL 1	0.657	0.100	7.892	***
Environ. As Com_Opp	→ EAO3	0.602			
	→ EAC 1	0.744	0.188	8.791	***
	→ EAC2	0.823	0.206	8.793	***

**Table 3:** Internal Consistency, Square Roots of Average Variance Extracted and Correlation Matrix

Construct	Internal Consistency	Public Concern	Regulatory Forces	Environment as Com_Oppr
Public Concern	.77	.81		
Regulatory Forces	.83	.46**	.81	
Environment as Com_Opp	.76	.45**	.55**	.75

**Notes:** The Diagonal (in italics) shows the square root of the average variance extract for each construct  
 \*\*, Correlation is significant at the 0.01 level (2-tailed)

**Table 4:** The Direct Effect of CSR on Organisational Performance

Dependent Variable	Independent Variable	Hypothesized Sign	Direct Effect $\beta$	Support
Organisational Performance	Social Concern			
	Public Concern	-	-.189	No
	Regulatory Forces	+	.137*	Yes
	Economic Concern			
	Env. as Com_Opp	+	.277**	Yes

**Notes:**  $\beta$  is standardized regression weights and SE is standard Error. Significance level: \*\* $p \leq 0.05$  \* $p \leq 0.01$



**Regulatory forces** also appeared to have the second highest positive significant relationship with organisational performance ( $p \leq 0.01$ ). This is consistent with the stakeholder's theory (Polonsky, 1995), which signifies the importance of tougher regulatory forces in order to foster the development of environmental strategies and influence organisation CSR strategic decision-making process. In fact, to a certain extent, Greve and Park (1994) and Levinthal and Myatt (1994) confirm that organisation capabilities develop as a result of organisation reaction to competitive environments. However, public concern was negatively significant in relation to organisational performance.

## 7. IMPLICATION, FUTURE RESEARCH AND CONCLUSIONS

Our findings provided an insight into how the elements of CSR are related to the organisational performance. This emphasized the idea that socially and environmentally responsible organisations need CSR in order to enhance their organisational performance.

Secondly, this study also added to the body of literature which explores social concern and economic concern, new dimensions of CSR and consequences for organisation and social actions. Hence, this study attempted to provide a CSR framework that can be used effectively in achieving organisational performance. Furthermore, assessments of the reliabilities and validities of each construct using CFA confirm the correspondence rules between both empirical and theoretical concepts (Bagozzi, 1984). Therefore, by combining these methodologies with the purified measurement, items of this study provides a useful direction for the future empirical research into the CSR framework.

From a managerial perspective, this study highlights that being socially and environmentally responsible is not only good for society, but also excellent for increasing and preserving the shareholders' value. As for policy makers, there is clearly a need to tighten up regulations or even develop new regulations and laws, which particularly address the enhancement of consumer protection, product quality or provide incentives for the organisations' practices toward CSR.

The study of social concern and economic concern enhances the managers' understanding on the impact of CSR in strengthening the relationship with stakeholders, and simultaneously boost organisational performance. The results of this study also confirm that managers need to pay more attention to CSR practices if they really wish and want to maintain their competitive edge in the market place. CSR activities or programmes are capable of strengthening and sharpening the management's understanding of consumers, and how to implement strategies so that they remain engaged in those activities. Furthermore, through CSR, the management could enrich its understanding of the business context in view of the organisations' long-term perspective in the future, and to ensure that the organisations' market decisions depict the true costs spent in building sustainable organisations.

In summary, the theoretical framework proposed in this study provides managers on the knowledge of how organisations strategize CSR practices in enhancing organisational performance. In practice, the findings suggest that organisations should incorporate corporate

social responsibility elements in their strategic decision making because it contributes, and provides a significant impact on the organisations' performance.

As such, when interpreting the findings from the study, some of the limitations should be mentioned. Firstly, the generalization of this study's findings may be limited to organisations registered under BURSA Malaysia and the Federal of Malaysian Manufacturers who are practicing CSR. This leaves the question open as to the representativeness of the sample. For that reason, future research should attempt to gather information from the organisations regardless of whether they are practicing CSR or not. Furthermore, a broader sample should include not only the managerial level but also non-managerial, to minimize any potential bias in the data.

Secondly, this study does not make any comparison between the sizes of the different organisations that practice CSR. Therefore, future research should consider the size of the organisations so that a comparison between large, medium and small organisations which practice CSR can be obtained. Organisations' CSR practices, strategy and performance implications evolve overtime. Thus, information over a longer period of time could be more transparent and justified. It may also be desirable to conduct a similar study which is directed toward collecting longitudinal data, which could reveal a detailed explanation on an organisation's activity and strategy.

Finally, the limitation of this study is that it uses only selected variables. It would be desirable to examine other elements of CSR such as organisational leadership because CSR in Malaysia is apparently lacking organisational leadership to guide and encourage units of the organisations to come out with innovative strategies. For more insight into the relevance of CSR for organisational performance, it would be more interesting to include relevant variables such as identification with a corporate brand and how best to use this variable as a driver to embed CSR in core business processes that have a direct impact on competitiveness.

To summarize, this study examines the relationship of CSR and performance of organisations in Malaysia. Even though the overall findings of the study emphasize that CSR practices play important roles in enhancing organisational performance, embedded public concern and opinion would facilitate managers to plan a more complete and conclusive CSR practice.

It is hoped that the findings of this study will yield a better understanding of the performance of organisations that affect the society's perceptions. It should, therefore, help in changing an organisation's behaviour in meeting the public's expectations.

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