

Awareness of Corporate Social Responsibility amongst Malaysian Small and Medium-Sized Enterprises: An Exploratory Study

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Abstract

As the world is gearing towards sustainability, much research has been conducted to investigate the level of awareness and practices of corporate social responsibility (CSR) by listed companies in Malaysia. These researches have indicated very low level of awareness and reporting of CSR among the listed companies. Minimal attention was placed on CSR for Small and Medium Sized Enterprises (SMEs) in Malaysia. Today much is being said about responsible entrepreneurship around the globe, thus we will attempt to relate this research to the CSR practices to SMEs in the country. This study is aimed at exploring the SMEs' awareness on CSR issues and whether they are in any case practicing it. Ten SMEs were interviewed in our study with unstructured and semi-structured questions asked. From our findings, most of the SMEs have not heard of the terminologies such as corporate social responsibility, corporate citizenship, sustainable development and responsible entrepreneur. However, these SMEs are actually practicing CSR activities unconsciously. Nevertheless, they do not think that reporting is necessary as they are doing these for their own business objectives. This research therefore has impacted the CSR studies in the country. CSR practices and reporting might be lead by Multinational Companies and championed by dominant Public Listed Companies in Malaysia. However, the CSR concept and practice are not new to SMEs. This study would be a great motivator for SMEs in Malaysian to realize their potentials in CSR practices and to aim to be a responsible entrepreneur.

Keywords: Corporate Social Responsibility, SMEs Malaysia, Responsible Entrepreneur.

INTRODUCTION

The increased level of awareness acts as push factor towards business behaviour pattern. One such awareness is social responsibility and how businesses behave or act towards stakeholders, environment and community at large. In Malaysia much focus is being accorded to the SMEs since over 90% of registered businesses falls in this category. It will thus provide a large potential of economic generation activities if these businesses are effectively managed. The government of Malaysia has taken a proactive role in identifying the problems faced by SME to achieve sustainable development. These problems include lack of finance and expertise. CSR on the other hand is the latest preach for businesses towards sustainable development. Though advocated by large companies, the CSR wave has now hit the SMEs. CSR is no longer a new topic of debate in the business world today. Not only the big corporations or multinational companies (MNC) are compelled to engage in CSR, this pressure has also 'spread' to SMEs. This is obvious through the supply chain management issue. There has been much discussion on CSR in Malaysia as early as 1980s for listed companies or MNC. However, there has been little attention given on the relevance of CSR to SMEs.

This paper aims to reveal the level of awareness of SMEs towards the concept of CSR and how the SMEs relate CSR issues to their businesses. We would also wish to examine if SMEs are ready to adopt CSR. Observation is made to gauge if SMEs are practicing CSR in any way. What are the motivating factor for an enterprise to engage in CSR and whether CSR can assist SMEs to inculcate responsible entrepreneurship. This is merely the preliminary stage of a series of projects to study the relationship between CSR and SMEs. This study would then serve as a platform to further examine the sensitivity of SMEs towards CSR practices.

There are few research questions to be answered:

- (i) What is the level of awareness of CSR amongst SMEs in Malaysia?
- (ii) Are the SMEs practicing or ready to practise CSR?
- (iii) Why do SMEs engage in CSR activities?

REVIEW OF LITERATURE

Corporate Social Responsibility in Malaysia

Since 1970s studies have been conducted in developed countries on CSR. However these studies were intensified locally in the recent five years. Most of the local researches done focused on examining companies or public's awareness towards the concept of CSR. All the literatures so far have come to a same conclusion that the level of awareness of companies is still considered low.

Numerous researches have studied the level of awareness amongst public listed companies. The level of awareness by public listed companies is measured by the quantity and quality of reporting of CSR information disclosed in the annual reports. Though the level of awareness has been quite low (Muhammad Jamil *et.al.*, 2003) but it is however improving (Thompson and Zakaria, 2004). The level of awareness is still considered low even though it is examined from the perspective of the employees (Ramasamy and Hung, 2004). Most of the information is narrative in nature with almost all 'good news' reported (Nik Ahmad *et al.*, 2003) rather than 'bad news'. These CSR related information were commonly reported in the Chairman's Report and Director's Report (Muhammad Jamil *et.al.*, 2003). The strongest motivation for companies to adopt CSR is to maintain reputation or brand management purpose (ACCA Malaysia, 2004).

ACCA has pioneered in promoting CSR to companies in Malaysia. Following the United Kingdom Environmental Reporting Award, ACCA initiated the Malaysian Environmental and Social Reporting Award since the year 2002. The award was launched to encourage more companies to engage and

implement CSR. For more standardised format of CSR reporting, ACCA published Environmental Reporting for Malaysian Companies in year 2002 and later Sustainability Reporting Guidelines for Malaysian Companies in year 2004. ACCA has also conducted two surveys, once in year 2002 and the other in year 2004 to investigate the status of CSR reporting in Malaysia. Their survey results support Thompson and Zakaria's study that the reporting of CSR has improved though the progress has been slow.

The readiness of investors to accept the idea of CSR as part of investment decisions has been well reflected in the Socially Responsible Investment (SRI) schemes. In Malaysia the SRI schemes are being introduced in the form of unit trusts, which were then called 'ethical fund'. There are two ethical funds in Malaysia, Mayban Ethical Fund and the Philip First Ethical Fund where both were launched in the year 2002. The reception of the two funds is still low in the country and they are still at a premature stage (Lee J.W. *et al.* 2005).

SMEs in Malaysia

The SMEs play a significant role in Malaysia's economic development. The strength of the SME can be digested through the 2000 census, which was conducted by the Department of Statistics. The census showed that there were a total of 20,455 active establishments in the manufacturing sector, out of the 44,185 manufacturing companies registered with the Companies Commission of Malaysia. Of this, there were 18,271 SMEs or represented 89.3 percent. The 2000 census also captured a total of 192,527 establishments in the services sector, of which 96.8 per cent were SMEs.

SMEs are given the limelight by government to assist them in managing their business. SMEs in Malaysia still face problems such as lack of financing, low productivity, lack of managerial capabilities, access to management and technology and a heavy regulatory burden (Salman Saleh and Oly Ndubisi, 2006). With the government's intervention, SMEs still lack of capacity, innovations and resources for them to be competitive.

SMEs played a key role not only in the economic development of a country, but they are also instrumental in promoting trade and investment activities among different economies. Enhancing the vitality of SMEs, therefore, is of pivotal importance in maintaining Asia-Pacific dynamism into the 21st century (Karikomi, 1998). It is therefore necessary to look at SMEs' business practices and increase innovation, speed so that measures can be taken to help them achieve sustainability and increase profitability.

Corporate Social Responsibility and SMEs

In Malaysia, this is probably the first of its kind research. The European nation is fast forward in helping its SMEs gauge the benefits of practicing CSR. An e-forum held by World Bank Institute gathered that CSR was still vaguely defined by SME's and that the strongest definition of CSR was commitment towards sustainable development (Anonymous, 2005). Participants from the e-forum were motivated to be socially responsible by financial incentives and moral values.

Utting (2004) found that SME's are reluctant to practise CSR due to lack of resources, ad-hoc management style and family-owned business status. However, SMEs are more readily related to CSR than MNCs due to the fact that their core business is well structured into the community.

MNCs should play a more provocative and supportive role in engaging the supply chains to endure CSR as a business practice. Although the general CSR agenda is structured for the big businesses, some SMEs will have no choice but to engage in the agenda as they form part of the supply chain for most MNCs. In a way, the supply chain SMEs are forced to adopt CSR. Nevertheless, MNCs should adopt the bottom-up approach to promote 'shared responsibility'. The bottom-up approach means greater involvement of SMEs interest in consultations and a better articulation of both voluntary and legalistic approaches to improve SMEs' environmental and social dimensions of company performance. In this case, SMEs will be able to compete

in a fair marketplace with strong public governance. On the other hand, SMEs not pressurised by the supply chain should adopt CSR simply because their environmental and social performances are feeble.

Longo (2005) conducted a study in Italy to link CSR to the corporate performance of SMEs. The research identified the social commitment in the SMEs and advocated suitable instruments to spread social values. The study revealed that the SMEs are well aware of the social responsibility approach and in fact welcome the approach. They believed that CSR practice contributes to the growth of the company's own value besides being ethical in business.

Responsible entrepreneurship

Though this term may sound new but it can tracked to 1998 Commission on sustainable development United nations (Paper No.4), here the role of private sector business has been seen to change to include environment protection and and promote social justice. In a nutshell responsible entrepreneurship is advocated as a strategy towards sustainable development and businesses should tap this as an opportunity to grow and sustain their business. Another discussion by Stanford Business School (2002) highlighted the desire to practice socially responsible entrepreneurship is escalating but no clear blueprint exists on it, as such it is best to balance the triple bottom line goals by maximizing profits and social goals.

Finally the EU roundtable Responsible entrepreneurship for SMEs (2002 work programme) suggest that this term suits the SMes as they are already engaged with CSR practice without being familiar with the concept and if the SMEs engage this term seriously the could be on their way towards achieving sustainable development whilst engaging with their communities.

METHODOLOGY AND METHOD

This is an exploratory study of which most of the data was collected through unstructured and semi-structured interviews. These were used to find out how CSR activities were embedded in the respondents' activities, especially when CSR activities are practiced unconsciously. On top of this, structured questionnaire was designed in attempt to reveal the level of awareness of SMEs on the CSR business concepts and whether they are practicing CSR activities.

Seven out of the ten interviewees were participants of the SMIDEX 2006 & ASEAN + 3 SMEs Convention. The unstructured and semi-structured interviews lasted for at least an hour and a half, whereas the structured questionnaire was filled up by the participants.

The following table shows the summary of respondents.

Industry	Nature of business	Job position of respondent
Manufacturing	Food processing	Director
Manufacturing	Semiconductor	Marketing Director
Manufacturing	Capacitor /Electronics	Director
Manufacturing	Household products	Director
Manufacturing	Containers	Production manager
Manufacturing	Electronics parts	Director
Education	Kindergarten	Director
Food	Restaurant	Owner
Services	Prepaid phone re-load	Director
Services	Professional business	Owner

FINDINGS AND DISCUSSION

Understanding of the term ‘Corporate Social Responsibility’

None of the SMEs in our samples understood what the term CSR meant though they have heard of the term. The term ‘CSR’ appeared technical to them and they have never been exposed to it. However the idea and concept of CSR were not new to them. In fact, it was encouraging to learn that they have been practicing the agenda without realizing that these activities come in line with CSR.

Engagement of CSR Activities by SMEs

In general, most SMEs were found to have a strong sense of belonging to their stakeholders. Most of SMEs that were interviewed showed that they were very concerned with two key stakeholders that are the employees and the customers. As such their CSR related activities were designed to take into account of the needs of these stakeholders. Interestingly, some of the SMEs did not emphasize the importance of suppliers’ needs and even tend to exploit them.

The CSR activities practiced were quite diverse. The SMEs were involved in recycling of waste materials, promoting paperless technology, using bio-degradable containers, involvement in philanthropic projects and voluntary adoption of Hazard Analysis Critical Control Point (HACCP) certification. One of the interviewee even rewarded their employees with the proceeds collected from recycling activities. Some SMEs ensures health and safety measures are taken towards employees’ benefits.

Generally, SMEs were mindful in meeting the demands of their key stakeholders, which may not be identical to all SMEs. We also discovered that SMEs partake in philanthropic activities easily, compared to other bigger companies.

Motivation for Engagement in CSR Activities

Steps were taken to examine the motivations of SMEs when engaging in CSR related activities. SMEs may be bound by professional code of conduct and ethics. Their business practices are aligned with CSR related activities. Supply chain pressure is also the motivator for some SMEs who are suppliers to MNCs. They are bound by restrictions or requirements to produce their products at certain quality. Their business processes have to be scrutinized to meet these requirements.

Basically, all SMEs are profit-driven. This motive still persists while engaging in CSR activities. This applied to those SMEs who engaged in activities like recycling and voluntary certification of products. The SMEs believed that these activities would bring them additional financial returns in time to come. Some SMEs were found to be value-driven. The owner runs the business associated with the personal values that have developed in them. There is a case where the owner started a business which is environmental friendly, due to his personal value as an environmentalist.

SMEs are also driven by the fact that customer level of awareness is escalating and that their products must have certain quality and be environment friendly. For example, an owner emphasized that the soap powder he produced was bio-degradable. Reputation is also another motivation for SMEs to engage in CSR activities. One of the SMEs managed its reputation by creating a personalized relationship with customers and took extra efforts to reach out to customers. By doing this, certainly the reputation of the company is heightened.

The study found that all these activities termed under CSR are carried out by the SMEs without highlighting them under a banner like MNCs usually do. For SMEs, survival is vital and they carried out these activities for sustainable reasons. This has reaffirmed the business case for CSR.

CONCLUSION

Although this is just a preliminary study on an exploratory stage, it has given us very positive and encouraging response as to the relevance of CSR to SME businesses. SMEs have embedded the CSR concepts into their business, though they might not have used the term 'CSR' and its synonyms. In order for SMEs to compete with their counterpart in this stiff market environment, SMEs have naturally incorporated CSR into their business. This adoption of CSR activities was done on an absolutely voluntary basis which SMEs believed the benefits would outweigh the costs. This would help them to achieve sustainable development in terms of financial stability as well as non-financial aspects.

The level of awareness on the CSR issues measured by amount of information reported may have to be redefined. No communication to stakeholders on what they have contributed in terms of environment and social activities may not necessary mean that these activities do not exist. Most of the SMEs are still not ready in communicating the CSR activities run by them. They perceived that the communication form dominated in reporting the CSR disclosures would bring them more costs than benefits. Moreover, they are unsure what format to follow and what need to be disclosed.

In a nutshell, the CSR for SMEs in Malaysia could be described as 'a sleeping tiger'. There are huge benefits and opportunities for SMEs who practice the CSR concept, which assimilate the power of a 'tiger'. The tiger is still asleep as its potentials might have been known but not fully utilized by companies yet.

RECOMMENDATION

Future research should focus more on how to help SMEs to implement CSR. There have been sufficient studies to reveal the lack of awareness and the low quantity and quality of CSR reporting amongst companies in Malaysia. In this decade, CSR benefits have well been revealed. More efforts should be placed on promoting its implementation.

Academia-industry collaboration can help to generate synergy and win-win situation to both SMEs and academics. SMEs serve as a good platform for academics to practice their theoretical framework in an actual business scenario. On the other hand, SMEs would be able to enjoy professional advice and consultation from experienced academia. SMEs that are serious in implementing CSR may form synergistic partnership with academician who stays in touch with the industry. Such working relationship in CSR implementation can then be documented to form some case studies which will then benefit both the SMEs and the academia.

SMEs' efforts put in to CSR activities should also be communicated to its stakeholders. Some other forms of communication models should be opened to SMEs. SMEs may not necessary report their CSR activities via annual reporting. They can communicate the information as and when it is required through other communication models such as the internet.

Concept of Responsible Entrepreneur

A responsible entrepreneur can be defined as an entrepreneur who aligns his business goal with that of the society and community, which aims to create a sustainable business. Responsible entrepreneur is one that advocates sustainable development not only for his own business, but also for the society as a whole. SMEs are constantly faced with sustainable issues and they are struggling to survive from the business constraints. Nevertheless, SMEs are well positioned that they are conveniently structured into their communities, which is an added value to their business.

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