

## MOTIVATION FOR CSR PRACTICES: EVIDENCE FROM FINANCIAL SERVICES INDUSTRY

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**Abstract:** *They could be a variety of motivations for business corporations to voluntarily engage in CSR activities. The existing literature indicates that successful and profitable corporations spent significant amount of money to actively participate in social and philanthropic programmes. Therefore, this article seeks to explore the motivations behind CSR engagement by financial services industry in Malaysia. A quantitative survey design was adopted to gather primary data from senior managers of the corporations. A total of 376 responses were collected and analysed in this study. The result shows that financial industry in Malaysia placed non-economic element as the main motive for their involvement in CSR practices.*

**Keywords:** *Corporate Social Responsibility, Motivation, Financial Sector, Malaysia.*

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### Introduction

The concept of CSR has become a mainstream issue among business communities in recent years. A key part of that agenda is to address the fundamental idea that corporations have obligation to work for social betterment (Frederick, 1994). Today, thousands of business corporations have developed not only codes of conduct governing dimensions of their social, environmental and human rights practices, but also issue reports on their CSR commitments. International organisations, such as the United Nations, the World Bank and the Organisation for Economic Cooperation and Development (OECD), actively promote CSR, as do several European governments and the European Union. Generally, a number of studies have been conducted so far in the area of CSR in Malaysia. However, most of the previous studies pertaining to CSR have focused on the area of disclosure and perception of CSR (see for examples, Muhamad and Muwazir, 2007; Muwazir et al., 2012; Park, et al., 2014; Sierra-

García, 2015). There were also several studies that have been conducted in comparison between Malaysia and other countries (see for examples, Chan, 2000; Chapple and Moon, 2005; Bouvain, et al., 2013). However, to the knowledge of the researcher, research conducted in the wider context of financial services sector in Malaysia especially dealing with CSR motivation is still underdeveloped. Therefore, it is hope that this study will contribute towards the development of CSR literature in Malaysia and fill the gap in this study.

## **Literature Review**

### ***Concepts of corporate social responsibility***

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

The existing literature indicated that many successful and profitable organisations spent significant amounts of money in fulfilling their social responsibilities (Doukakis et al., 2005). Brammer and Millington (2005) argued that companies that adopt CSR programme often build positive corporate reputation and profitability. This proposition is supported by both theoretical and empirical research. For instance, study conducted by Arjoon (2000) and Marshall (2005) asserted that business corporations that adopt social responsibility – driven strategies generate greater profit potential than those companies that pursue solely on profit – driven strategy. Furthermore, by raising its reputation through being associated with social responsibilities activities, business corporations can experience a greater competitive advantage (Prado-Lorenzo et al., 2008).

According to Acuff (2005) social responsibility effort can produce enrichment marketing, where well-being of consumers is enriched, leading to favourable goodwill towards the company. A number of studies indicated that CSR initiatives in various forms are positively related to customer loyalty and brand name (Miller, 2002; Melo and Galan, 2011; Torres, et al., 2012). In his study, Mackiewicz (1993) found that nine out of ten consumers used CSR reputation of an organisation in order to decide which product and services they will consume. In some cases, consumers are willing to actively support socially responsible organisations and disperse positive information about these companies to others (Maignan, 2001).

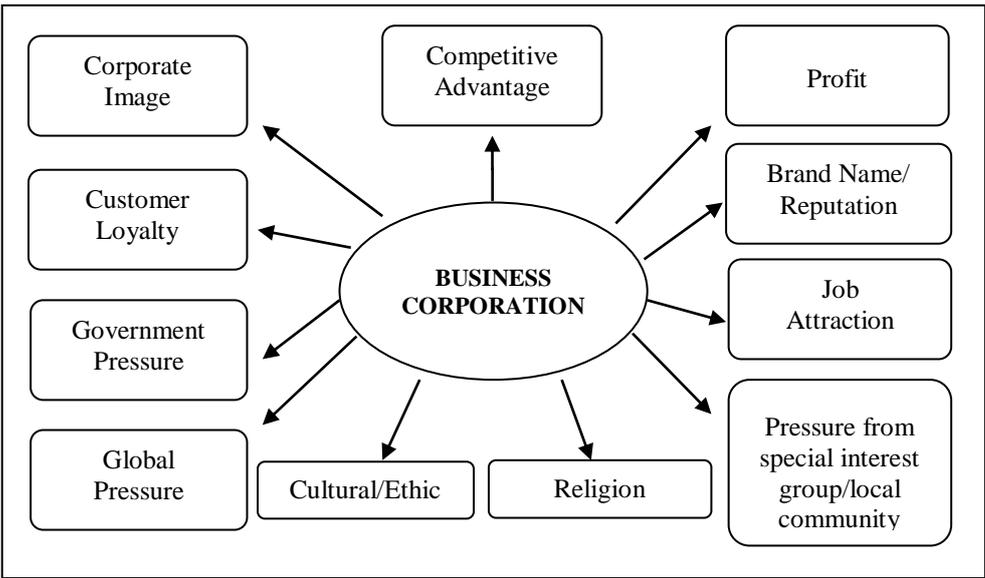
Another motivation is that socially responsible organisations are capable to retain high quality employees and attract superior job applicants (Barnett and Vaicys, 2000; Backhaus et al., 2002). For example, empirical study done by Greening and Turban (2000) found that job applicant's perceptions of a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

when employees perceive their organisation is committed to pursue environmental protection, they are more likely to generate ideas to improve company’s environmental policies.

Culture has also been found to be an influential motivation for corporation to engage in social activities. Davis (1973) claimed that business is operating under a set of cultural constraints in the same way that any other person in society does. Therefore, any changes in society’s culture and norms will change business behaviour. For example, in some developing countries, particularly in Asia, studies found that religious commitment exerts an impact on the attitude and behaviour of business entrepreneur to perform social responsibility practices (Dusuki, 2005; Muhamad and Muwazir, 2007). Another study by Bouvain, et al. (2013) found out that CSR is not a universal concept but is strongly associated with different geographical market.

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

Figure 1 below shows a summarisation of broad motivations for business corporations to voluntarily undertake CSR programmes.



**Figure 1: CSR Motivation**

It can be concluded that business corporations’ socially responsible behaviour are motivated from two main factors; internal and external drivers. The literature recognises government pressure, global pressure, culture, ethics, religion, job attraction, pressure from special interest group/local community and customer loyalty as external drivers, whilst corporate image, competitive advantage, profit and brand name/reputation as internal drivers.

## Research Methodology

This study adopts cross-sectional design or survey design. The respondents were selected from senior managers using stratified random sampling from different segment of financial institutions namely commercial banks, investment banks, brokerage firms, fund management companies, insurance companies, unit trust companies and large public fund organisations. The questionnaire mailing and follow-up generated 384 responses, out of which 376 were usable (valid and completed). The respondents were asked to rate all items on a five-point Likert scale. The preliminary analysis (reliability test) carried out in this study indicates that the value of Cronbach's Alpha coefficient for all eleven items is 0.7. Therefore, the questionnaire items signify a satisfactory high degree of internal consistency for further statistical analysis.

## Findings

### *Background of respondents*

As depicted in Table I, most respondents were predominantly male. Slightly less than three quarter of the respondents were male (72.1 per cent) compare to female (27.9 per cent). The combination of respondents between age 31-40 and 41-50 represents 73.2 per cent of the total respondent. Relatively few were either below 30 years of age (10.4 per cent) or over 50 years of age (16.5 per cent). The distribution of age indicates that the perceptions of respondents towards CSR commitment will be dominated by the opinion of the middle-aged respondents.

The data from Table 1 also illustrates that respondents of the study were came from seven types of financial institutions. The majority (21.0 per cent) of the respondents were from commercial banks followed by about 17.8 per cent from the insurance companies. The respondents from unit trust companies and public fund organisation share quite a similar distribution of 12.2 per cent and 12.8 per cent respectively, while 11.2 per cent were from the fund management companies. A slightly lesser number (10.6 per cent) were from brokerage firms.

**Table 1: Background of Respondents**

	Frequency	Percent
<b>Gender:</b>		
Male	271	72.1
Female	105	27.9
<b>Age:</b>		
30 years and below	39	10.4
31 - 40 years	139	37.0
41 - 50 years	136	36.2
51 years and above	62	16.5
<b>Company's profile:</b>		
Commercial Bank	79	21.0
Investment Bank	54	14.4
Brokerage Firm	40	10.6
Fund Management Company	42	11.2
Insurance Company	67	17.8
Unit Trust Company	46	12.2
Public Fund Organisation	48	12.8

### Factor Analysis: CSR Motivations

Factor analysis is used to reduce a large number of variables into a smaller set of underlying factor that summarises the essential information that was contained in the variables. In this section, factor analysis is used as an exploratory technique when the researcher wishes to summarise the structure of a set of variables. The 11 items of CSR motivations will then be subjected to principal component analysis (PCA) and varimax rotation with the Kaiser Normalisation. The PCA with a greater than 1.0 is regarded as significant and can be used to determine the factors that are to be extracted. The analysis reveals that there are four factors with an eigenvalue that is greater than 1.0. These four factors are accounted for 67.40 percent of variance. Each factor explains a particular amount of variance in the items. Factor 1 explains 29.96 percent, Factor 2 explains 17.40 percent, Factor 3 explains 10.54 percent and Factor 4 explains 9.51 percent of the total variance.

The rotated solution (shown in Table 2) discovered the presence of simple structure with the 4 factors showing a number of strong loadings. The 4-factor solution which is based on the loading of the 11 variables was represented by Factor 1 (external forces), Factor 2 (corporate image), Factor 3 (economic performance) and Factor 4 (cultural). These factors indicate the main motivations behind CSR involvement by the financial sectors in Malaysia.

**Table 2: Rotated Component Matrix on CSR Motivations in Financial Sector**

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

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

senior managers in financial sectors in Malaysia. Factor 4 consists of ‘personal ethical and cultural tradition’, ‘religious responsibility’ and ‘matching of social needs to corporate skill, need or ability to help’.

Based on the findings, we can summarise that CSR attitude of financial industry in Malaysia give more credibility to the external drivers (government, global and community group pressures) in comparison with internal drivers.

## **Conclusion**

This article presents empirical evidence on the perception of senior managers in the financial services sector toward CSR motivations in Malaysia. To summarise, this study suggests that financial services sector in Malaysia placed the non-economic elements as the main drivers in promoting CSR involvement among the Malaysian corporations. The findings also provide a better insight on how managers in the Malaysian financial sectors are motivated in engaging with the social responsibility activities.

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