EMPOWERING SOCIETY FOR BETTER CORPORATE SOCIAL RESPONSIBILITY (CSR): THE CASE OF MALAYSIA

Azlan Amran[1*], Mustaffa Mohamed Zain[2], Maliah Sulaiman[3], Tapan Sarker[4] and Say Keat Ooi[5]

[1,5]Graduate School of Business, Universiti Sains Malaysia, 11800 USM Pulau Pinang, Malaysia
[2]Faculty of Accountancy, Universiti Teknologi MARA, Shah Alam, Selangor, Malaysia
[3]Department of Accounting, International Islamic University, Gombak, Selangor, Malaysia
[4]Asia Pacific Centre for Sustainable Enterprise, Griffith Business School, Griffith University, Brisbane, Australia
[*]Corresponding author: azlan_amran@usm.my

This article presents a theoretical proposition based on stakeholder theory for better Corporate Social Responsibility (CSR) practices, specifically in the context of Malaysia. The aim of this article is to argue the need for a government initiative to help empower local communities and transform them into legitimate and powerful stakeholders. An understanding of the concept and importance of CSR is still lacking among the local communities in Malaysia, in contrast to the communities in certain developed nations where the idea of CSR originated. Competing for the limited resources of the firm, communities need to understand that they also have a role in promoting better CSR. This article contributes to the literature by providing a fundamental explanation of how the community could be empowered to become an important driver of CSR practices, contributing to a better atmosphere if both firms and communities work together towards a sustainable livelihood. The public sector includes all types of government agencies, which should play their role in providing awareness to the community about its rights and capability to become an effective change agent regarding the responsibility of firms operating within its environment.

Keywords: corporate social responsibility, developing country, empowering society, stakeholder theory

INTRODUCTION

Previous stakeholder theory research has been mainly approached from the firm's perspective. Most of the studies conducted were concerned with identifying the salience of stakeholders, *planning for appropriate measurements* in addressing their expectations and relating these expectations to the performance of the company (Agle, Mitchell and Sonnenfeld, 1999). Several models that focus on

various attributes, such as power, legitimacy, contribution and urgency, have been introduced to identify important stakeholders (Clifton and Azlan, 2010). The idea is to examine whether and when the salient stakeholders, if properly handled, would have an impact on the bottom line of the firm.

There have already been various studies looking at "who and what they really want (stakeholder)"; however, not many studies are looking at "how to get it" (Frooman, 1999). It is timely, particularly in developing countries such as Malaysia, to address this issue. Currently, in many instances, firms are the dominant party in the tripartite relationship between the firm, the society and the public sector. Thus far, firms, as an entity with a motive to maximise profit, have had an adverse impact within the tripartite relationship. The whole concept of a tripartite relationship is not new and falls nicely under the broad umbrella of the stakeholder theory because it includes those stakeholders who are affected by the firm's objective (Freeman, 1984). The broad view of stakeholders includes people and the environment, including biodiversity, water and air. Firms continually face demands from various stakeholders to devote resources for corporate social responsibility (CSR) (McWilliams and Siegel, 2001). The community in the vicinity of the firm's operation constitutes one of the important stakeholders that is normally ignored, and the community is the least fortunate stakeholder because of its ignorance in applying pressure for the resources.

Some groups of stakeholders may not be directly linked to the firm; however, they may be directly affected by the firm's activities. Evidence shows that the impact of business is alarming. Firms' self-interested actions have been identified by scientists as the main contributors to the serious environmental problems that our planet is currently facing. If this problem is not addressed, it will become impossible to solve. More and more stakeholders have gained recognition from the firm in addition to the shareholders who were the first to be acknowledged. The question now is how and when a firm will listen to the community. In most cases, key issues in CSR are normally explained from the perspective of firms while neglecting the voice of the community (Boehm, 2002).

Under the umbrella of CSR, the firm is expected to fulfil its responsibility not only towards the shareholders but also towards other affected stakeholders. However, it is not easy to change traditions. Given the nature of firms, old practices continue; however; these practices may now consider stakeholder advocacy (Werther and Chandler, 2006). Firm strategies are developed based on an understanding of what stakeholders expect. Despite such changes, stakeholders with strong power will be given priority when competing for the limited resources of the firm. For weak stakeholders to attain their expectations of being given priority by firms, certain attributes need to be fulfilled. To warrant becoming a salient stakeholder, weak stakeholders need to ultimately possess power. Firms will react fast to stakeholders with power (Friedman and Miles, 2002).

In a developing country such as Malaysia, CSR is now an emerging trend. An increasing number of companies are actively practicing CSR. Nevertheless, according to Nejati and Azlan (2009), CSR is still considered to be in its infancy stage in Malaysia. The findings from previous studies indicate that awareness is low, even though the government has been talking about the CSR agenda for several years (Azlan, 2006). It is well understood that CSR concepts were brought to Malaysia mainly through the practices of multinational companies. For Malaysian firms and the local communities, the concept is fairly new, even though the practice has been in place for many years. Indeed, the whole concept itself is still deemed to be immature by certain scholars (Ward, 2004). The origin of CSR can be traced back to developed countries and reflects the concerns of stakeholders in high-income countries. It is reported that stakeholders in these parts of the world, including communities, are powerful and able to exert pressure on firms to behave appropriately, and they obtain more attention from firms (Kapelus, 2002). This phenomenon has slowly entered into businesses in low- and middle-income countries, mainly through supply chains and other types of private business interactions. Malaysia, which is highly dependent on foreign investment, has no choice other than to join the bandwagon.

The drivers of CSR indicate that foreign influence is significant in the CSR development in Malaysia (Azlan and Susela, 2008). To date, in Malaysia, the major CSR consultants are foreign consultants, namely OWW Consulting and CSR Asia. Such development is encouraging, but it may not really reflect the needs and expectations of local stakeholders, particularly the local communities, which some perceive as a weak and passive stakeholder. Normally, firms will dominate the relationship, and less attention is given to the welfare of the society and community. Practices are normally planned based on Western approaches and may therefore not be adapted to the needs of the local communities. This outcome would not happen if local people were empowered through CSR awareness and knew about their rights with respect to those of the firm. For instance, Kulim Berhad launched the Women's Grievance Panel to create awareness of sexual harassment, domestic violence and women's rights issues. Over time, a feeling of integration developed among women in the estates. At the Sindora Estate, the wife of a former estate manager formed a club for women, which involved women in social, charitable, religious, knowledge-sharing and income-generating activities, reflecting a shift in focus from grievance to empowering women socially and economically (Capital Corporate Communications, 2012). Such empowerment awareness would hopefully enable the community to be an effective driver in forcing and monitoring the CSR practices of firms. This empowerment would also force firms to recognise that the community should be included in their CSR decisions.

This article aims to look at the possibility of empowering the local communities to become one of the salient stakeholders through proper strategies of empowerment and government support to provide incentives as well as legislation to promote better CSR. This article recognises the need for help from the public sector as well as from the firms in making this agenda possible. It will present a framework to illustrate and articulate the three-dimensional relationship between the public sector (government), which is now playing an active role, the community and the firms. This study proposes a framework to plan for better CSR practices in Malaysia. This framework will also enable the localisation of CSR practices, which subsequently contributes to the sustainable development agenda.

CSR IN MALAYSIA: THE REALITIES

In Malaysia, CSR has become an important issue after the Prime Minister of Malaysia, during his 2007 budget speech on 1 September 2006, announced that it is mandatory for all public listed companies (PLCs) in Malaysia to report their CSR practices in their annual report (Abdullah, 2006). Studies show that the corporate social responsibility movement can be traced back as far as two decades; however, most of the practices were not disclosed or reported (Teoh and Thong, 1984). According to many researchers, disclosures concerning the workplace or human resources are the most commonly reported themes in terms of quantity (Ho, 1990; Mustaffa, 1999; Che Zuriana, Kasumalinda and Rapiah, 2002; Zakaria, 2002; Azlan, 2006). This finding implies that CSR practices that address issues pertaining to internal stakeholders are popular in Malaysian firms. Such a finding implies that employees might be one of the stakeholders that possess all three attributes, namely power, legitimacy and urgency (Agle, Mitchell and Sonnenfeld, 1999). In addition, workplace-related activities are perhaps akin to the company's daily operation. Nevertheless, growth in the community and society-related activities are significant and were ranked in second place of the CSR activities reported by local companies (Rozaini and Cooke, 2002; Thompson and Zarina, 2004; Azlan, 2006).

Surveys have indicated that CSR practices among local companies concentrate mainly on corporate philanthropy. This finding is evident by the survey conducted by Prathaban and Abdul Rahim (2005), which found that approximately RM82.1 million was given away to various charitable societies, programmes, orphanages and the poor between the period of July 2003 and December 2004 (18 months). The top three donors gave out RM30.5 million, which was approximately 34.3% of the contributions. The contribution of the top ten companies accounted for over 80% of the total contributions. Reviewing the survey figures shows clearly that the size of the firm is a factor. This finding indicates that many Malaysian businesses still think that CSR is mainly about corporate philanthropy. The reality is that despite the various programmes

conducted by the government, the impact is still low. A CSR practice that focuses on the environmental dimension is still lacking. The environmental dimension is not a popular topic, and only firms with an impact on the environment are considered to have good environmental practices. For instance, companies such as UEM Environment Sdn. Bhd. and Kulim Berhad (Plantation Division) are among the champions of environmental practices (Association of Chartered Certified Accountants, 2010). Both companies are committed to sustainable development and disclose detailed quantitative and qualitative data on environmental performance. Thus, this fact supports the contention that Malaysian CSR is conditioned by the industry.

It has been observed that CSR in Malaysia is seasonal; during the holiday season (for example, *Eid Mubarak* and Chinese New Year), many companies, especially Bumiputera (indigenous)-controlled companies, express their generosity by giving donations to the elderly, poor and orphanages. Many of these activities are conducted in large five star hotels, and the media are normally invited to provide coverage. It is also common to see ministers or very prominent politicians officiate at these functions. This observation is consistent with previous findings from studies conducted in local environments, which concluded that the purpose of CSR is to preserve and elevate the company's image (Nik Nazli and Maliah, 2004; Thompson and Zarina, 2004; Azlan and Susela, 2008).

The Malaysian government is also involved in ensuring that business and public activities pay heed to CSR issues, such as eradicating poverty, conserving energy, combating deforestation, managing fragile ecosystems, protecting health and managing land resources (Nor Mohamed, 2004). Minimum standards are currently set in Malaysia by the government to administer CSR practices, particularly in the areas of environmental protection, social welfare, health and safety. Furthermore, to be consistent with the national agenda, particularly in regard to achieving Vision 2020, the Securities Commission is also pushing towards a better CSR implementation to meet the objectives of the National Integrity Plan, thus generating greater economic and capital market growth in Malaysia (Najib, 2004).

As an emerging economy, Malaysia is no exception to environmental challenges. Throughout 2010, cases involving environmental issues, as opposed to social or employment-related issues, attracted the most attention in local newspapers and appeared to attract the attention of the public, the private sector and the government. The issue of climate change is significant, leading the Prime Minister to declare a reduction in carbon emission by up to 40% by 2020 compared to 2005 levels in December 2009 during the 15 Conference of Parties meeting of the United Nations Framework Convention on Climate Change in Copenhagen, Denmark (Second National Communication, 2010). To help mitigate the problem of climate change, several initiatives have been conducted. The most recent initiative is the introduction of the Green Technology Financing

Scheme (GTFS), whereby the green bank helps to finance the purchase of green machines (Najib, 2004).

The Association of Chartered Certified Accountant's survey on the state of corporate environmental reporting in Malaysia indicates that the reporting is conditioned by the industry. This finding may reflect the real environmental practices among local companies. The government of Malaysia has put in place extensive legislative measures to help protect the environment, such as the Environmental Impact Assessment (EIA), which makes it compulsory for major development projects to be subject to an EIA (Salleh, 2000). Many Malaysian companies have adopted the ISO 14001 Environmental Management System standards to measure their compliance. This fact was proven by the survey conducted by the Association of Chartered Certified Accountants (2002). Thevaraj (2002) stated that at the time of the study, there were 367 Malaysian companies with ISO 14001 certification, proportionately more than in many developed and developing countries including the US, France, India and China. These companies consisted of unlisted small and medium companies that were suppliers to foreign multi-national companies that insisted on ISO 14001 certification as a prerequisite for doing business with them (Thompson, 2003). Moreover, environmental sustainability was further strengthened with the release of the National Policy on the Environment (Ministry of Science, Technology and the Environment, 2002) and National Policy on Climate Change (Ministry of Natural Resources and Environment, 2009). These policies integrate economic development with environmental needs to ensure a clean, safe, healthy and productive environment for the present and future generations. Hence, the aforementioned phenomena show that, in practice, companies in Malaysia are environmentally conscious, even though this may not be reflected in their reporting.

In a related development, the Malaysian Accounting Standards Board (MASB) has made it explicit in MASB 1 that additional information, such as "environmental reports," should be prepared. The Malaysian accounting body is also actively promoting corporate social reporting, perhaps to be in line with recent developments in which Bursa Malaysia made it mandatory for listed companies to disclose a CSR statement. Such a movement clearly indicates that Malaysia, through appropriate agencies, is seriously promoting CSR. Other agencies that are also promoting CSR include the Malaysian Institute of Integrity and the Companies Commission Malaysia, which arranged a road show to disseminate information pertaining to CSR. Information dissemination is also part of their awareness programme for small- and medium-sized firms.

In terms of Social Responsible Investment (SRI), Malaysia has a so-called Islamic approved fund (*syariah*-based fund), which was first established in 1968. In addition, two ethical funds were set up by the Malaysian government in 2003, as part of its effort to encourage investments in companies that are not only profitable but also socially responsible. These companies do not engage in

tobacco, liquor or gambling, and they practise good corporate governance and are environmentally friendly (Nor Mohamed, 2004). These funds often provide comparatively good financial returns as well as additional social and environmental benefits that go beyond direct financial rewards to the investor. The above brief description illustrates the realities of the CSR movement in Malaysia.

Concerning the awareness among the community, there is no explicit and precise definition of CSR (Dusuki and Tengku Mohd Yusof, 2008). To date, local people have not been very environmentally friendly in their daily life, which shows that proper education and awareness programmes are required. Most of the current CSR awareness programmes organised by the government agencies are directed at firms. For example, a recent road show was organised by the Malaysian Institute of Integrity and the Company Commission of Malaysia (CCM) to promote awareness of CSR among local small- and medium-sized companies.

At present, the government relies on other existing laws, such as the Employment Act 1955, the Environmental Quality Act, the Occupational Safety and Health Act, and the Consumer Protection Act, to enforce CSR in Malaysia. Corporate behaviour and practices are expected to be socially acceptable because labour and human rights, environmental and waste management and work place safety are core CSR issues. Therefore, poor labour or environmental practices are considered a violation of rules and regulations, which is also against good CSR practice. In the state of Penang, more aggressive action has been taken whereby Tuesdays and Wednesdays have been declared as "no plastic days," which forces shoppers to bring their bags when shopping. Many organisations are still unsure, or in some extreme cases, unaware about the benefits that CSR holds for organisations. Most of the organisations that have in some way incorporated CSR are most likely doing so because it is a trend or only as a means of promoting their company with respect to the enforced status. Companies consider CSR as more of a collection of discrete practices or occasional gestures or as initiatives motivated by marketing, public relations or other business benefits.

STAKEHOLDER THEORY

Stakeholder theory has been analysed almost exclusively from the organisational perspective. Previous research focuses on how businesses manage stakeholders. Stakeholder theory, as introduced by Freeman (1984), started from a corporate strategic management theory dealing with how corporations interact with their stakeholders and evolved into a more comprehensive theory addressing various aspects of business-society relations (Steurer et al., 2005). Stakeholder theory is a theory that assesses the role of actors in a corporate environment. Based on this theory, corporations need to satisfy a multiplicity of stakeholders, and focusing on shareholders alone is unsatisfactory. The management is expected to consider

and respond to stakeholder needs and to report on its activities to the stakeholders (Freeman, 1984). The element of stakeholder advocacy is crucial to ensure the survival of the firm. The focus is no longer solely concentrated on the shareholders but includes other parties.

Freeman (1984) classifies stakeholders into two main categories: direct and indirect stakeholders. Direct and indirect stakeholders have also been referred to in the literature as business and social stakeholders (Lepineux, 2005) or primary and secondary stakeholders (Clarkson, 1995). According to Clarkson (1995), primary stakeholders are important because an organisation cannot survive without continuous participation from these groups (shareholders, employees, customers, suppliers, government and the community that provide direct resources to the organisation). Meanwhile, secondary stakeholders are groups that are not essential for the survival of the organisation and do not have any direct transaction with the organisation. However, they can influence or are influenced by the organisation's activities and existence. Such groups need other parties to look after their welfare, an issue that needs attention to enable this group of stakeholders to live independently and realise that they also have power to exert pressure on a firm.

According to Clarkson (1995), the term "stakeholders" refers to groups that have a legitimate claim on or interest in a corporation and its activities, whether in the past, present or future. This legitimate claim is established through the existence of an exchange relationship between the organisation and its stakeholders (Freeman, 1984). This relationship is sometimes hard to achieve; Freeman (1984) explains the relationship between the organisation and its external environment and the organisation's behaviour within this environment. He portrays the organisation as a centre that is surrounded by different identifiable stakeholder groups. These stakeholders can be identified by identifying the type of effect that stakeholders have on the organisation or vice versa. These effects include economic, technological, political and managerial effects or even the effect on society.

Clifton and Azlan (2010) classified the debate on stakeholder theory into two main themes, namely a narrow view and a broad view. In the broad view, as described by Freeman, "(a stakeholder is) any group or individual who can affect or is affected by the organisation's objectives" (Freeman, 1984: 5). Broader views are normally not limited to considering humans that live in the current generation. Clifton and Azlan (2010) suggested that the definition should also include the natural (non-human) world (e.g., species, ecosystems, and the biosphere as a whole), future generations, and even past generations by way of recognition and respect for ancestral values and beliefs (Starik, 1994; Dunphy, Griffiths and Benn, 2003). This view implies that attention should also be given to different types of communities, such as boys, girls, women, men and those with special ability. In contrast, the narrow view normally focuses on those human parties (people, groups of people, organisations, and institutions) that are

of direct relevance to a corporation's economic interests (Mitchell, Agle and Wood, 1997) and without whose continuing involvement and support the corporation could not survive (Clarkson, 1995; Dunphy, Griffiths and Benn 2003). Despite the broad view and the various stakeholders included, their influence on firms is still unclear and the extent is difficult to identify. Some scholars conclude that a corporation's core obligations still rest with its primary/normative stakeholders, as identified under the narrow view (Phillips, Freeman and Wicks, 2003).

STAKEHOLDER POWER

Firms operate with limited resources. As such, corporations have to be very selective in addressing stakeholder needs. Normally, firms will conduct a stakeholder analysis to identify and prioritise their stakeholders. Such an exercise involves several steps that, subsequently, have an influence on a company's strategic planning (Werther and Chandler, 2006). This common practice indicates that not every stakeholder will be listened to and that not all of their needs will be addressed by the firm. Weak stakeholders, for example, the poor, the indigenous groups and perhaps the environment, will not be on the firm's radar.

Several analysis and mapping models are presented in the stakeholder literature, management books and other general management materials, academic text books, etc., the main functions of which are to help managers with the following: (1) identify who the stakeholders of a corporation are, (2) categorise and prioritise these stakeholders, and (3) determine what actions managers should take towards each stakeholder. These functions enable the firm to design and plan its resources. As such, these models offer managers a practical tool to help handle stakeholders and translate the models into action.

These models commonly seek to help managers analyse salient stakeholders that may influence corporate performance (Jones, 1995). The most common attributes that have been examined are power, legitimacy, urgency, interest, and contribution. Mitchell, Agle and Wood (1997) argued that power is important to influence the firms. If the stakeholder possesses power, it can influence the firm independent of whether it has a legitimate claim. Nevertheless, Mitchell, Agle and Wood (1997) emphasise the attribute of the legitimacy of a claim on a firm based upon, for example, a contract, exchange, legal title, legal right, moral right, at risk status, or moral interest in the harm and benefit generated by the firm's actions. The legitimacy attribute appears comprehensive enough to incorporate all of the actions taken by the firm. Both power and legitimacy, if combined, would provide stakeholders with a strong influence on the firm. The urgency will help to ascertain whether they will receive immediate attention. This model also emphasises that stakeholders become more salient if the attributes are accumulated. The model by Mitchell, Agle and Wood (1997)

clearly created an avenue for the analysis of how stakeholders would influence the firm.

Friedman and Miles (2002) proposed different types of stakeholders according to the contract between the stakeholders and the firm. Friedman and Miles (2002) define contract as a relationship entered into with some degree of freedom and in accordance with at least some of the interests of the parties. The stakeholders are differentiated into four groups according to the type of contract – explicit recognised contract, implicit recognised contract, implicit unrecognised contract and no contract. The type of contract that exists between the stakeholders and the firms will determine the level of influence and stakeholder legitimacy.

With respect to the literature that discusses the influence strategies of stakeholders, Frooman (1999) uses resource dependence theory to articulate stakeholders power concepts and how stakeholders could influence firms. According to Frooman (1999), resource dependence theory is similar to agency and network theory because these theories focus more on how particular actors within the environment affect a focal organisation and assume that the focal organisation can actively respond to social actors (Oliver, 1991). Resource dependence theory simply describes that it is the dependence of the firms on the environmental stakeholder for resources that gives the stakeholders leverage over the firm. Central to this concept is the notion that a firm's need for resources provides the opportunity for others (stakeholders) to gain control. In short, the higher a firm's dependence on the stakeholder, the higher is the stakeholder's power. This concept is quite different from Michell, Agle and Wood (1997) in that it focuses on the resources the stakeholder has rather than on the power of one individual.

Interest is defined as how interested each stakeholder group is to impress its expectations on the organisation's purpose and choice of specific strategies – the extent to which they (the stakeholders) are likely to show interest in supporting or opposing a particular strategy (Johnson, Scholes and Whittington, 2005). It has been argued that this attribute, when coupled with the power attribute, would help stakeholders to meet their expectations (Johnson, Scholes and Whittington, 2005). Such interests, if recognised by the firm, will be addressed properly by the firm's policy and business strategy.

The most recent trend is the transparency issue in business, whereby firms are required to produce CSR reporting, which is also considered as an action that could help empower stakeholders. This information, together with the practice of some companies to enter into a dialogue in their preparation of the CSR reporting, provides a good platform for stakeholders to communicate their concerns and expectations to the firm. Cooper and Owen (2007) proposed that administrative reform within the companies is necessary to promote transparency. Obtaining information may not be adequate for the stakeholder, according to Stewart's (1984) accountability framework; to make the information effective, the stakeholder should have the power to hold the person who gives the account

accountable. If accountability is to be achieved, stakeholders need to be empowered such that they can hold the accountors to account. This accountability may not be solely a legal implication but a greater emphasis on the firm to perform its corporate social responsibility.

The discussion above highlighted some of the attributes that are necessary for stakeholders to achieve their expectations. Of all the attributes, power is the central theme in the above models. The other attributes, for example, interest, resources, contract and legitimacy, are conceptually overlapped, whereby the models discuss how the dependence or the extent of a relationship occurs between the firm and the stakeholder. Interest and resources are about how a firm manages the resources it needs. Regarding contract and legitimacy, these two attributes indicate how a firm tries to manage and narrow down its focus on the most relevant stakeholders or how a firm prioritises its stakeholders based on its limited resources. The concept of power is not really clear from the above discussion on the existing literature. However, it is obvious that power alone is not able to make the stakeholder salient to the firm. Power must be accompanied by more than one attribute for the stakeholder to remain in the higher rank.

THE FRAMEWORK: PUBLIC SECTOR, COMMUNITY AND BUSINESS

The framework proposed in this article has been used in previous research to describe and explain various issues, such as to promote economic development and better governance (United Nations Development Programme, 1997). In this article, of course with some modification and contextualisation, the same three-dimensional connections will be applied to help explain how the public sector, community and business can interact to produce better CSR practices. In the area of CSR, stakeholder engagement has been the key concept for ensuring success in achieving good CSR. This framework will position its argument from the CSR perspective, which claims that firms are moral agents. According to social contract theory, there is a social contract between the society and business, which is an implicit social agreement that lays out the duties and rights of individuals or groups in the society. This theory provides a strong argument that the community does have rights with respect to firms. It also helps to justify the morality of economic activities through a theoretical basis for analysing the social relations between firms and society. In this respect, CSR is derived from the moral legitimacy the corporation achieves in society, and the understanding of CSR is contained in the justification of a firm's social actions that legitimise its behaviour. This philosophy of CSR falls under the ethical theories (Garriga and Mele, 2004), which include universal rights (United Nations Global Compact, 2011) and sustainable development (World Commission on Environment and Development [WCED], 1987). It is also important to note that the public sector could be considered as part of society.

The social contract concept links to stakeholder theory, specifically to the framework of Mitchell, Agle and Wood (1997), which emphasises the attribute of the legitimacy of a claim on a firm. The framework clearly describes that the claim on a firm can be based upon a contract, exchange, legal title, legal right, moral right, at risk status, or moral interest in the harm and benefit generated by a firm's actions. Such a statement provides strong justification to the framework in explaining that the community is a legitimate stakeholder of the firm and that the help of the public sector will perhaps highlight the salience of a community to the firm. The understanding of such a relation between the community and a firm is significant to inform a community about its rights and what it can do to assert them. Here, the concept of empowerment comes into play. According to Zimmerman (2000: 43), "empowerment is viewed as a process: the mechanism by which people, organisations, and communities gain mastery over their lives;" however, in this statement, no details are provided about the process across the levels of analysis. Zimmerman (2000: 44) added that, "empowerment suggests a distinct approach for developing interventions and creating social change. It directs attention toward health, adaptation, competence, and natural helping systems." In the context of this discussion, empowerment is a process in which efforts are made by the individual or the community to exert control of their rights. The community, with the help of certain organisations, should be informed, trained and able to claim its rights under certain circumstances and events.

Porter and Kramer (2006) stated that the CSR field is strongly founded with a moral imperative. The nature of the moral concept, which is very subjective, leaves considerable room for flexibility and manipulation. The nature of moral principles is also subject to the culture and locality of the context. As such, the role of the community in communicating its needs, interests and expectations is very important. If the local communities understand their role and duty, it will enable them to assert their rights and the firm will need to obtain a licence from the communities to operate. This approach will foster a constructive dialogue with the society, consisting of the public sector and the community. In the event of a firm ignoring its responsibility, the communities is expected to have the courage to work within the norms and law to exert pressure on the firm. This pressure will send a strong signal about the power the community has. The most recent event was an incident in Gambang, Kuantan, where the local communities stood up to boycott the opening of the Lynas plant.

Receiving proper recognition from the firm will definitely help the local communities to be included in the firm's strategic planning. Another form of empowerment that this framework attempts to promote is that of an active engagement between the community and the firm in the form of an active participatory role. Such an engagement would be made possible if the firm realises the importance of a dialogue with the local communities concerning every action that might be of concern and that either impacts the community's

present or future situation. Such a dialogue will provide a good platform for the community to understand the firm's planning and how it could be affected. This dialogue could also be the best avenue for the two parties to negotiate and share their expectations to strive for a win-win situation. Through such a programme, the community would be able to ascertain the firm's limitations and strengths to help develop a better community. This healthy relationship is akin to creating an interface and interdependence between the firm and the company, rather than tension, which might lead to conflict. Such a process will then lead to a more sustainable community development, which could help develop active and sustainable communities based on social justice and mutual respect (Maimunah, 2009). "It is about influencing power structures to remove the barriers that prevent people from participating in the issues that affect their lives" (Maimunah, 2009: 203). This process could form an interesting collaborative working model for the Malaysian CSR programme.

The role of the public sector is significant to ensure the success of the social contract. Without proper awareness and understanding of the rights and duties, the local communities may not be able to exert positive pressure on the firms. Fox, Ward and Howard (2002) state that the role of the public sector in supporting CSR can be divided into four broad categories: mandating, facilitating, partnering and endorsing. In Fox, Ward and Howard (2002), the role of the public sector concentrates very much on businesses. Thus, the public sector basically provides guidelines mandating business to control some aspect of business investment and operations; facilitates business, for example, in the process of stakeholder dialogue; partners with business to address issues within the CSR agenda; and endorses business to show political support for some type of CSR practice. Fox, Ward and Howard (2002) did not specifically analyse how the public sector could help facilitate or partner with the local communities. Note that the local communities may have their own preference concerning certain things; thus, facilitating the local communities' direct involvement would better reflect their needs and expectations.

This framework suggests that the public sector should also broaden its role to help empower local communities by providing them with the awareness and skills to enable them to be noticed by the firm. Such knowledge and skills are needed to effect change in the community thinking and to promote greater awareness about the community's role in promoting a sustainable livelihood though the support of CSR. This skill would enable the community to build political power through the formation of a large society group with a common agenda and work such as a non-governmental organisation (NGO) with shared goals. The community must understand how to work with the firm and how it can be affected by the firm's operation. To date, most of the community programmes conducted by firms are self-planned and may not really address the pertinent needs of the local communities. The following diagram illustrates the above explanation.
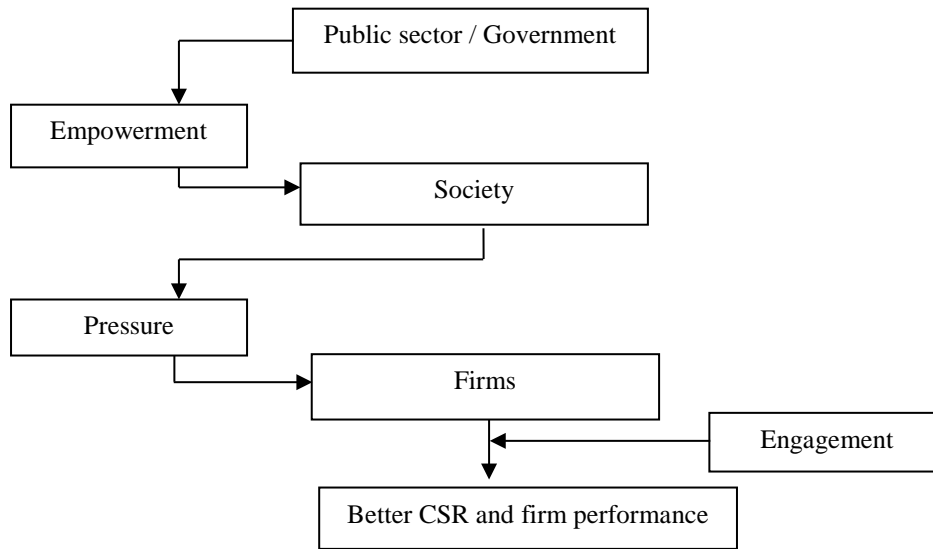
Figure 1: Empowering society for better CSR

PROPOSITIONS

Public Sector and Community Awareness

Understanding the role of the public sector in empowering the community would strengthen the framework of promoting better CSR practices that reflect the needs of the community as the largest stakeholder that is most impacted by the firm's operation. Such an interface would provide a two-way communication through which both the community and the public sector could benefit. Looking at developed nations, the local communities are well informed of their rights and have benefited from their informed status (Kapelus, 2002). In an environment where CSR is integrated in mainstream business operations, it is not difficult for the community to be included in the firms' long-term planning. For example, it is common to observe that large companies in rich countries are organising regular dialogue with stakeholders, including representatives from the community. To date, there is no evidence showing that local large companies are organising such dialogues with the local people. To illustrate, let us look at the oil and gas industry in Malaysia. In 2002, the US energy firm Murphy Oil Corp was the first firm to discover deep-water oil in Malaysia, in Sabah. The firm was then awarded two new exploration areas in January 2003 (MBendi, 2012). It has also been awarded various other exploration areas in Peninsular Malaysia. ExxonMobil was reported to extract more Malaysian crude oil and gas than any other company,

totalling 280,000 bpd of crude oil and 1.3 billion cubic feet of gas per day. Esso Production Malaysia Inc., which is an affiliate of ExxonMobil Corp, is the largest crude oil production company in Peninsular Malaysia, accounting for nearly half of Malaysia's crude oil production (MBendi, 2012). An analysis of the CSR practices of Esso Malaysia Berhad, as disclosed on their website and in their annual report, indicates that their CSR contribution is not comparable with the benefits that they are enjoying. Being the largest crude oil production company, expectations concerning community development should be larger and more significant than what was reported in its 2008 Annual Report, which merely consisted of ad hoc corporate philanthropic activities (Esso Malaysia Berhad, 2008).

Such a situation may change if the public sector takes the initiative to empower the local communities with the knowledge and skills that would enable it to better understand its rights. With such knowledge and skills to create awareness, the local communities would definitely become a legitimate stakeholder in the eye of the firm, eventually ensuring that the community receives better attention. This article proposes that the local communities that have a pro-active public sector that empowers them with CSR skills would create a more knowledgeable community.

> P1: A public sector that actively organises CSR awareness programmes for the community would result in a community with better CSR skills

Community as a Salient Stakeholder

Prior literature has focused on how firms should manage stakeholders, creating the impression that, until now, weak stakeholders such as the local communities have been ignored and are not considered in the CSR planning of the firm. The present CSR practices or programmes by local companies are mainly corporate philanthropy, and many practices are seasonal in nature.

The contribution of many foreign companies is very little compared to what they earn. Most of the contributions are superficial and one-off programmes (Kapelus, 2002). If the operation of firms were scrutinised through the lens of sustainable development, more critique could be presented. The firms' impact on the local communities concerning the environment and also perhaps socially is significant. Only the local communities that live within the vicinity of the firm's operation will understand their own problems and issues, and none of these people are consulted except for an occasional meeting with public sector officers. Given the power that the firm has, this means that the dilemma of local people will not be solved.

According to Mitchell, Agle and Wood (1997), power and legitimacy are two core attributes that are expected to affect stakeholder salience and, when combined, constitute authority. This article proposes that proper empowerment, which could be organised by the public sector, would enable change for the local communities, providing them with the power to influence by building political power through the formation of large groups that fight for a common cause or connect to other, more powerful non-governmental organisations. This empowerment is not possible without knowledge and skills. Understanding the real concept of CSR and its rights over the firm will enable the local communities to strengthen their legitimate status with respect to the firm. This empowerment will not happen if the community lacks a high awareness concerning CSR.

A firm would increase its CSR practices in a community that has reached a position where the firm recognises its power and feels that the community has a legitimate claim on it. If a firm engages with local communities, greater changes would happen and we would see more localised CSR practices and programmes being conducted. This article proposes the following propositions if the community has a greater awareness of CSR.

P2a: A community with high CSR awareness will result in better CSR practices of the firms

P2b: A community with high CSR awareness will lead to more localised CSR practices and programmes

Improve Firm Performance

A firm's performance can be increased when it is able to control risk. In contrast, it would most likely be the largest risk for a firm if it ignores the community. For example, Shell learned about consequences the hard way when it ignored the local communities' concern regarding the environmental damage caused by Shell's operation in Nigeria. It faced a consumer boycott, which eventually affected its profit. Consequently, Shell learned about the need to behave in a socially and environmentally responsible manner within the local communities. This event was one of the reasons for Shell to initiate its Shell Sustainable Development transformation (Skillern, 2004). Interestingly, Shell's transformation started by producing a sustainability report with the primary objective of reporting Shell's initiative in transforming itself to become a better corporate citizen. Such an effort is expected to create a better image for Shell. A firm that lacks a proper and deep understanding of the role of the community and that delays its engagement with the community is just postponing these costs, which can result in far greater costs if the company is later convicted of having violated its social obligations (Porter and Kramer, 2006). CSR has been known as a firm's strategy to build and maintain its reputation, and for many firms, CSR practices are mostly short term in nature and defensive reactions, which create a

never-ending public relations tug of war. Such practices provide minimal benefits to the community and do not constitute a good strategy for the firm (Porter and Kramer, 2006).

The views of stakeholders and feedback are extremely important if a firm plans to minimise its future risk. However, these groups can never fully understand a firm's capabilities, competitive positioning or the trade-offs it must make. Consequently, it is a wise strategy for the firm to get the local communities on board through a structured and organised dialogue. Through this, the local communities could also participate in the company's growth and would possibly provide support in terms of allocating the resources that they may have, for example, by helping to provide capable human resources. According to Porter and Kramer (2006), a successful corporation needs a healthy and supportive society, and the community needs a successful corporation to prosper. Such a symbiotic relationship is the basis of the argument that leads to the following proposition.

> P3: A firm that empowers the community through dialogue would achieve better firm performance

DISCUSSION AND CONCLUSION

Firms with limited resources are struggling in prioritising their CSR strategy. We acknowledge that the purpose of the existence of a firm is to make profit, but this profit should not be at the expense of the community and the environment. Currently, most of the CSR practices are superficial and do not directly meet the expectations of the local communities. The community seldom has a chance to explain what is in its best interest. In most cases, the community is just a receiver of donations from the firm depending on how generous or how much profit the firm makes during the year. In many Malaysian cases, the CSR practices are still at the corporate philanthropic stage, as highlighted by Prataban and Abdul Rahim (2005), as well as by Norhayah and Azlan (2006). Therefore, the recent CSR development in Malaysia is still considered as being in its infancy stage, albeit there is strong evidence indicating that multinational companies have good CSR practices (Azlan and Susela, 2008; Nejati and Azlan, 2009).

Greater involvement in understanding the local communities may require more resources; however, if properly done, it will benefit the firm in the long run. This article proposes a framework that aims to empower the local communities to help it claim what it could possibly receive from the firm. Based on the review of the previous studies, it is noted that power is a very crucial attribute for the community to become a salient stakeholder. In this framework, we propose that the local communities could acquire power through the help of the public sector. The CSR concept is relatively new for many Malaysians. Not many local communities understand that they have a right over firms, which is especially

true in some remote areas where certain large multinational companies operate. This fact can be changed if the public sector proactively organises a proper CSR awareness programme for local communities. Media can be used as one possible channel in creating awareness of the community. Simple yet meaningful messages, if properly designed, will possibly attract the local communities' interest in understanding the concept and, eventually, increasing its knowledge about its rights. The influence of people is clearly observed when firms produce lower quality products for export to less-developed countries with lower CSR awareness. In contrast, firms produce better quality products for countries with greater CSR concerns. This practice indicates that firms respond to the demands of the community.

The public sector, as the party that has currently taken several initiatives to educate local businesses on CSR, could expand its programme to include the local communities as one of the participants to be educated. Considering Malaysia's context of different ethnic groups, CSR programmes should consider the different ethnic group cultures to avoid the risk of conflict between ethnic groups. This programme, if successful, will help to create another driver or factor that could influence firms to practice CSR. We foresee that such a driver will not only help promote CSR practices but will also be more localised to meet the needs of the local communities. These practices will definitely benefit both the community and the firm. Such a framework, if successfully applied by the Malaysian public sector, could be expected to help develop the community with fewer resources and less time needed. This effect may help Malaysia to achieve its vision 2020 sooner, thereby becoming a nation that is fully developed not only economically but also politically, socially, spiritually, psychologically and culturally.

ACKNOWLEDGEMENT

REFERENCES

Abdullah Badawi. 2006. The 2007 budget speech. http://www.treasury.gov.my /pdf/budget/bs07.pdf (accessed 30 September 2011).

Agle, B. R., R. K. Mitchell and J. A. Sonnenfeld. 1999. Who matters to CEOs? An investigation of stakeholder attributes and salience, corporate performance and CEO values. *Academy of Management Journal* 42(5): 507–525.

Association of Chartered Certified Accountants (ACCA). 2010. *Report of the judges*. Kuala Lumpur, Malaysia: ACCA Malaysia Sustainability Reporting Awards (MaSRA).

_____. 2002. *The state of corporate environmental reporting in Malaysia*. London: Certified Accountants Educational Trust.

Azlan Amran and D. Susela. 2008. The impact of government and foreign affiliate influence on corporate social reporting: The case of Malaysia. *Managerial Auditing Journal* 23(4): 386–404.

Azlan Amran. 2006. Corporate social reporting in Malaysia: An institutional perspective. PhD diss., University of Malaya, Kuala Lumpur, Malaysia.

Boehm, A. 2002. Corporate social responsibility: A complementary perspective of community and corporate leaders. *Business and Society Review* 107(2): 171–194.

Capital Corporate Communications. 2012. 2010 Awards: Kulim Malaysia recognised for supporting women. http://www.anugerahcsrmalaysia.org/2011/05/11/kulim-malaysia-recognised-for-support-for-women/ (accessed 30 September 2011).

Che Zuriana Muhammad Jamil, Kasumalinda Alwi and Rapiah Mohamed. 2002. Corporate social responsibility disclosure in the annual reports of Malaysian companies: A longitudinal study. *Social and Environmental Accounting Journal* 22(2): 5–9.

Clarkson, M. B. E. 1995. A stakeholder framework for analyzing and evaluating corporate social performance. *Academy of Management Review* 20: 92–117.

Clifton, D. and Azlan Amran. 2010. The stakeholder approach: A sustainability perspective. *Journal of Business Ethics* 98(1): 121–136.

Cooper, S. M. and D. L. Owen. 2007. Corporate social reporting and stakeholder accountability: The missing link. *Accounting, Organisations and Society* 32: 649–667.

Dunphy, D., A. Griffiths and S. Benn. 2003. *Organizational change for corporate sustainability*. London: Routledge.

Dusuki, A. W. and Tengku Farrah Maimunah Tengku Mohd Yusof. 2008. The pyramid of corporate social responsibility model: Empirical evidence from Malaysian stakeholder perspectives. *Malaysian Accounting Review* 7(2): 29–54.

Esso Malaysia Berhad. 2008. Annual report and accounts. http://www.exxonmobil.com.my/Malaysia-English/PA/Files/EMB_Annual_Report_2008.pdf (accessed 30 September 2011).

Fox, T., H. Ward and B. Howard. 2002. *Public sector roles in strengthening corporate social responsibility: A baseline study*. Washington DC: World Bank Group.

Freeman, R. E 1984. *Strategic management: A stakeholder approach*. Boston: Pitman.

Friedman, A. L. and S. Miles. 2002. Developing stakeholder theory. *Journal of Management Studies*. 39(1): 1–21.

Frooman, J. 1999. Stakeholder influence strategies. *Academy of Management Review* 24: 191–205.

Garriga, E. and D. Mele. 2004. Corporate social responsibility theories: Mapping and territory. *Journal of Business Ethics* 53: 51–74.

Ho, S. K. 1990. Corporate social responsibility disclosures in Malaysia. *Akauntan Nasional* January: 4–9.

Johnson, G., K. Scholes and R. Whittington. 2005. *Exploring corporate strategy*. Essex: Pearson Education Limited.

Jones, T. M. 1995. Instrumental stakeholder theory: A synthesis of ethics and economics. *Academy of Management Review* 20: 404–437.

Kapelus, P. 2002. Mining, corporate social responsibility and the "Community": The case of Rio Tinto, Richards Bay Minerals and the Mbonambi. *Journal of Business Ethics* 39: 275–296.

Lepineux, F. 2005. Stakeholder theory, society and social cohesion. *Corporate Governance* 5(2): 99–110.

Maimunah Ismail. 2009. Corporate social responsibility and its role in community development: An international perspectives. *The Journal of International Social Research* 2(9): 199–209.

MBendi. 2012. Extraction of crude petroleum in Malaysia – overview. http://www.mbendi.com/indy/oilg/ogus/as/my/p0005.htm/ (accessed 30 September 2011).

McWilliams, A. and D. Siegel. 2001. Corporate social responsibility: A theory of the firm perspective. *Academy of Management Review* 25: 117–127.

Ministry of Science, Technology and the Environment. 2002. *National Policy on the Environment*. Putrajaya, Malaysia: Ministry of Science, Technology and the Environment.

Ministry of Natural Resources and Environment. 2009. *National Policy on Climate Change*. Putrajaya, Kuala Lumpur: Ministry of Natural Resources and Environment.

Mitchell, R. K., B. R. Agle and D. J. Wood. 1997. Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *Academy of Management Review* 22(4): 853–886.

Mustaffa Mohamed Zain. 1999. *Corporate social reporting in Malaysia: The current states of the art and future prospect*. PhD diss., University of Sheffield, United Kingdom.

Najib Abdul Razak. 2004. *The role of CSR in achieving vision 2020*. Keynote address in the Corporate Social Responsibility Conference – CSR: Creating greater competitive advantage. Kuala Lumpur, Malaysia: Securities Commission.

Nejati, M. and Azlan Amran. 2009. Corporate social responsibility and SMEs: Exploratory study on motivations from a Malaysian perspective. *Business Strategy Series* 10(5): 259–265.

Nik Nazli Nik Ahmad and Maliah Sulaiman. 2004. Environmental disclosure in Malaysian annual reports: A legitimacy theory perspective. *International Journal of Commerce and Management* 14(1): 44–58.

Norhayah Zulkifli and Azlan Amran. 2006. Realising corporate social responsibility in Malaysia: A view from the accounting profession. *Journal of Corporate Citizenship* 24: 101–114.

Nor Mohamed Yakcop. 2004. *CSR & SRI: The way forward for Malaysia*. Paper presented at the Joint UK- Malaysian Corporate Social Responsibility Conference, CSR: Creating greater competitive advantage, Securities Commission, Bukit Kiara, Kuala Lumpur, Malaysia. 21–22 June.

Oliver, C. 1991. Strategic responses to institutional processes. *Academy of Management Review* 16: 145–179.

Phillips, R., R. E. Freeman and A. C. Wicks. 2003. What stakeholder theory is not. *Business Ethics Quarterly* 13(4): 479–1502.

Porter, M. and M. R. Kramer. 2006. Strategy and society: The link between competitive advantage and corporate social responsibility. *Harvard Business Review* 84(12):78–92.

Prathaban and Abdul Rahim. 2005. Big earners, small givers. *Malaysian Business*, September: 12–16.

Rozaini Mohd Haniffa and T. E. Cooke. 2002. Culture, corporate governance and disclosure in Malaysian corporations. *Abacus* 38(3): 317–349.

Salleh Mohd Nor. 2000. Nurturing nature for the future. *Sunday Star*, 4 June, 26–27.

Second National Communication. 2010. *Malaysia Second National Communication to the UNFCCC*. Putrajaya, Malaysia: Ministry of Natural Resources and Environment Malaysia.

Skillern, J. W. 2004. *Sustainable development at Shell (A)*. Boston, MA: Harvard Business School Publishing.

Starik, M. 1994. The Toronto conference: Reflections on stakeholder theory. *Business & Society* 33(1): 89–95.

Steurer, R., M. E. Langer, A. Konrad and A. Martinuzzi. 2005. Corporations stakeholders and sustainable development I: A theoretical exploration of business-society relations. *Journal of Business Ethics* 61: 263–281.

Stewart, J. D. 1984. The role of information in public accountability. In *Issues in public sector accounting*, eds. A. Hopwood and C. Tomkins. Oxford: Philip Allen.

Teoh, H. Y. and G. Thong. 1984. Another look at corporate social responsibility and reporting: An empirical study in a developing country. *Accounting, Organizations and Society* 9: 189–206.

Thevaraj, V. 2002. Beyond ISO 14001 – Communicating environmental performance. Paper presented at ACCA Fifth Annual Conference on Corporate Social Responsibility – Changing the way you do business, Grand Copthorne Hotel, Singapore. 24 October.

Thompson, P. 2003. Corporate environmental reporting in Singapore and Malaysia: Progress and prospects. Paper presented at the Corporate Environmental Reporting Conference, Kuala Lumpur. 10–11 March.

Thompson, P. and Zarina Zakaria. 2004. Corporate social responsibility reporting in Malaysia progress and prospects. *Journal of Corporate Citizenship* 13: 125–136.

United Nations Global Compact. 2011. *Corporate sustainability in the world economy*. New York: United Nations.

United Nations Development Programme. 1997. *Reconceptualising Governance. Discussion Paper 2*. New York: United Nations Development Programme.

Ward, H. 2004. *Public sector roles in strengthening corporate social responsibility: Taking stock*. Washington DC: International Finance Corporation, World Bank Group.

Werther, W. B. Jr. and D. Chandler. 2006. *Strategic corporate social responsibility: Stakeholder in a global environment*. London: Sage Publications.

World Commission on Environment and Development (WCED). 1987. *Our common future*. England: Oxford University Press.

Zarina Zakaria. 2002. Corporate social reporting in Malaysia. MBA diss., University of Malaya, Kuala Lumpur, Malaysia.

Zimmerman, M. A. 2000. Empowerment theory psychological, organizational and community levels of analysis. In *Handbook of community psychology*, eds. J. Rappaport and E. Seidman. New York: Kluwer Academic/Plenum Publishers.