

CHAPTER 1

BACKGROUND TO THE STUDY

1.1 Introduction

This chapter begins by presenting the research background, objectives, theoretical underpinning, scope, and the contributions of the study. Lastly, discussion on the organisation of the study also is presented.

1.2 Research Background

Corporate social responsibility (hereinafter CSR) is how organisations maintain their values, behaviour and accountability with the expectations and needs of the internal and external stakeholders. Ideally, CSR functions as an autonomous system whereby the organisations ensure to obey and keep their eye on the law and ethical standards in the business operations.

CSR describes the organisations' dedication to be responsible to their stakeholders in earning the highest level of trust. It is a business's concern for the society's welfare. Through this process, organisations contribute to the society's sustainable development and accomplish their corporate social responsibility. The key role and responsibility are translated in the facets of business, social and the environment. Essentially, CSR is a

continuing commitment by organisations to behave ethically, contribute to economic development and inclusion the public interest into corporate decision-making.

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

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

Eventually, CSR enables the strategic management of internal and external risks in social and environmental areas. This allows the organisation to plan short term strategy and in addition to sustain good organisation performance. In the long run, organisations achieve the suppliers', business partners', and customers' confidence and loyalty. As such, the products and services of the organisations increase and escalate to maximize profit. Organisations that address concerns of more socially conscience consumers in their strategic and day-to-day decision making process, are able to place themselves at a

competitive advantage against the competition. These CSR practices are synchronizing with the philosophy of community and sustainability development in a market driven society.

This study is to examine the elements of antecedents for CSR orientation since these elements are important to the CSR practices. Accordingly, orientation refers to the organisations' basic value and goal as well as the organisations' strategy in order to compete in the market place. As defined by Smith et al., (2001) CSR orientation is the constructs of the stakeholders' perception in how organisations handle their social responsibility and performance. The constructs help in developing the theoretical understanding of the processes through which CSR is practiced. These constructs are later regarded as the main thrust that lead to the step toward generating marketing capabilities of the organisation.

Hence, this study measures the CSR practices of the multidimensional constructs based on the stakeholder's theory and resource-based view. Consequently, the motives of the study propose that organisations who comply with environmental rules and regulations and simultaneously build stakeholders' relationship would gain better economic wealth, achieve competitive advantage and maintain an ecological balance. Moreover, the social programmes carried by organisations promote goodwill, public favour, and corporate trust would contribute to the long-run success of the organisation and profit. Ultimately, socially responsible initiatives enhance organisations' image and business in general. Accordingly, this study will examine how CSR is perceived and implemented by organisations in developing countries since there is limited knowledge in these areas (Al-

Khatih et al., 2004). Furthermore, comparative survey of CSR in 15 countries across Europe, North America and Asia done by Welford in 2005 has speculates that CSR as being less prevalent in developing countries such as Hong Kong, Malaysia, Mexico, and Thailand based on the low response rates. More specifically, Malaysia is generally the weakest in terms of CSR performance as compared to Thailand being relatively strong on external aspects (such as child labor and ethics) and Hong Kong being generally better on internal aspects (such as non-discrimination and equal opportunities).

Through an extensive review of pertinent literature, three dimensions of organisational corporate social responsibility orientation have been identified. They are:

1. Social concern that consist of:
 - a) public concern
 - b) regulatory forces

2. Economic concern that consist of:
 - a) Environment as commitment
 - b) Environment as opportunity

3. Corporate citizenship culture that consist of:
 - a) Ethical citizenship
 - b) Economic citizenship
 - c) Legal citizenship
 - d) Discretionary citizenship

To explain how organisations deal with social concern and environmental issues in congregating the external stakeholders' demands, the concept of corporate environmentalism was adopted. This concept integrates environmental concern into organisations' corporate as well as marketing strategy by adopting the stakeholder approach. Fundamentally, it is about the relationship between organisations and the natural environment whereby the general public and policy makers increasingly insist that organisations improve their environmental performance.

Eventually, researchers argued that environmental issues are gradually having a more significant impact on the organisations' daily operations and in the long run affect the organisations' performance (Newell, 2005; Jenkins & Yakovleva, 2006). In fact, it is the organisations' obligation to preserve the ecological environment and general public interest since social concern and environmental issues are now being considered as external issues (Ginson, 2006). Therefore, organisations need to integrate social concern and environmental issues into their strategic decision-making process in order to embark upon the environmental problems facing the organisations. If the organisations ignore those social concern and environmental issues, subsequently the political system will undertake these issues and turn them into new regulation or new law (Kilcullen & Kooistra, 1999). These new regulation and law will restrain the managers in making decision.

Concurrently, in explaining the elements of economic concern which blends the concepts of organisations' goals on social performance, entrepreneurship orientation and marketing strategies, this study adopted the concept of enviropreneurial marketing. It is a

perspective of an entrepreneurial approach in formulating and implementing an environmentally marketing strategy which provide exchanges that satisfy the organisations' economic and social performance objectives. Apparently, organisations integrate the goals, entrepreneurship orientation and marketing strategies in order to meet consumers demand and to maintain a competitive position in the market place.

Initially, organisations goals and objectives are to earn the highest trust of society by meeting the public's expectations and fulfilling its social responsibilities (Mutch and Aitken, 2009). Societies in general expect more from the organisations from whom they purchase. Thus, the blend of enviropreneurial marketing practices in the organisations' marketing strategies would improve the social and environmental performance, as well as, yield to competitive advantage and economic benefits simultaneously.

The last element of CSR orientation is **corporate citizenship culture**. It is the organisations' obligation toward the stakeholders and as a tool to help position the organisation strategically and effectively in the marketplace. It is the extent to which organisations assume the economic, legal, ethical and discretionary responsibilities imposed on them (Maignan and Ferrell, 2001). Organisations have realized that in order to stay productive, and competitive, in the challenging business world, they have to become socially responsible.

The aims of organisations are to increase organisations' value and simultaneously attempt to promote and improve the communities. An ethical organisation is the one that help society deal with its problems and contribute to its welfare by producing good

products and services, creating jobs for society and providing a safe working environment. In addition, organisations must respect and obey the law that is set-up by the government. Besides, involvement of the organisation is needed in assisting the society in the areas of education, charities, arts and etc. Conclusively, organisations not only need to consider their economical but they must operate within the law; be ethical and fair but also be a good corporate citizen.

CSR is an important marketing strategy tool because with the knowledge, skills, talent, financial and physical resources will permit organisations to possess **marketing capabilities**. Organisations can use these marketing capabilities effectively and efficiently to produce a product to meet customer demands, be innovative and assist organisations to reduce social problems. Indeed, the alignment of CSR with marketing strategy facilitates the organisations to define their priorities, and build social values. In this study, the marketing capabilities are developed based on an extensive review of pertinent literature and two dimensions of marketing capabilities that have been identified. They are:

1. Organisational learning which consists of:
 - a. Commitment to learning
 - b. Shared-vision
 - c. Open-mindedness

2. Enviropreneurship which consists of:
 - a. Innovativeness
 - b. Risk taking
 - c. Proactiveness

Organisations must interact with its surrounding. Organisations that are able to learn quickly are competent to change their work practices in order to perform better in the constantly changing environment (Banerjee, 1998). Improved performance through learning will persistently permit organisations to transform. To be market-driven organisations, the organisations must learn to position themselves to anticipate the developing needs of their customers and respond through the addition of innovative products and services. Thus, internal and external customer focus becomes an important element in a learning organisation. In learning organisations, management decisions are seen as an important part of the strategic decision making process. As such, learning in organisations is important in order to respond to customers' changing needs, demands, to develop with new processes and procedures and to answer public concerns while meeting the technology innovation and information new demands. It gives the practical knowledge and lessons needed in order to improve decision making, manage risk, measure performance and leverage business partnerships.

Environmental entrepreneurship or ecopreneurship (termed 'enviropreneurship' hereafter) are individuals who conceive the new and green business opportunities, are risks takers and convert ideas into reality. They are employees who are concerned with environmental issues. An entrepreneur is one who is innovative, dynamic, risk taking,

creative and growth oriented. Organisations that combine environmental improvement in the strategic decision-making is seeking to create a working atmosphere that emphasizes respect for individuals and allow employees to realize their own potential. Thus, these responsible organisations which promote a social responsible behaviour will cultivate the motivation aspects in the employees work and working environment. Furthermore, these organisations will able to draw and retain high quality staff. Therefore, the enviropreneurship role as a method in building the portfolio of environmental concerns within organisations is very important.

Good performance is crucial to organisations. Yet, being good in performance is not enough in this current highly competitive environment. The organisations need to identify the environmental issues and problems as an important competitive differentiation element and turn them into one of the sources of competitive advantage. The organisations are required to be decision-driven that convert the organisations' objectives into actions and embrace environmental sustainability factors into their marketing strategies in order to create superior value and gain competitive advantage that allow them to out-perform their competitors. Good and high-performance organisations contribute not only to the successful performance of the organisations but also to good society and being good corporate citizen. The managers in these high-performance organisations are competent to respond to changes in the environment, meet customers demand and requirement, able to modify work process to enhance performance and finally contribute to the community (Day, 1994). Eventually, organisations that implement environmental initiatives in the strategic decision making not only ameliorate the organisational performance but also protect the environment.

1.3 Objectives of the Study

The main research objective of this study is to investigate the elements of antecedents for corporate social responsibility orientation and its consequence for the development of marketing capabilities and organisational performance. This is achieved firstly by examining the elements of antecedents for social concern, economic concern and corporate citizenship culture. Specifically, the objectives of the study are:

1. To examine the elements of CSR orientation in the organisations strategic decision-making process;
2. To investigate the relationship between CSR orientation and marketing capabilities;
3. To investigate the mediating effects of marketing capabilities between CSR orientation and organisational performance;
4. To investigate the relationship between marketing capabilities and organisational performance and lastly;
5. To propose an integrated model linking CSR orientation, marketing capabilities and organisational performance.

1.4.Theoretical Underpinnings

Theories employed to develop the framework for this study are derived from stakeholder theory and resource-based view theory.

1.4.1 Stakeholder Theory

CSR is the organisation and integration of social and environmental concerns into business operations and interactions with stakeholders. Ullmann (1985) asserts that stakeholders' theory and CSR activity are linked by signifying the stakeholder power, organisations' strategy, the organisations past and present economic performance which are interconnected between social disclosure and economic performance. Polonsky (1995) agrees that stakeholder's theory is enormously appropriate in applying into environmental marketing since stakeholder's theory offers a process that permits the organisations to develop an environmental strategy which satisfies both the goals of the organisations and their stakeholders. Therefore, social performance was one of the ways the organisations express their responsiveness to social issues (Wood, 1991).

Clarkson (1995:106) define stakeholders as *“persons, or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past present or future.”*

Post et al., (2002) impose that it is the organisations capability to establish and maintain relationships within their entire network of stakeholders that verifies their long-term survival. Relationships involve on-going argument and mutual elements which engage

the interactions and network of stakeholders that create, sustain, and enhance its value-creating capacity of organisations (Clarkson, 1995). As such, stakeholders have a strategic and/or moral stake in the organisation, and each is guided by its own interests and values. Therefore, the organisations must align their CSR programme with the CSR values of the stakeholders (Maignan et al., 2005).

Porter and Kramer, (2006) conceptualize that CSR deals with shared value where the value influence strategy chosen guides managers in their CSR decision-making (Pant & Lachman, 1998). Waldman et al. (2006) studies grounded on the notion that values are strong mechanisms that shape actions. Besides, stakeholder's theory, resource-based view (RBV) is another theory applied in guiding this study.

1.4.2 Resource-based View (RBV)

Resource-based view addresses the fit between what organisations has the ability to do and what opportunities it has to do (Russo & Fouts, 1997). In relation to this study, the resource-based view of the organisation (Hart, 1995) was employed as the domain to marketing capabilities elements. This view asserts that an organisation's competitive *marketing* capabilities and performance depend significantly upon organisation-specific organisational/*marketing* resources and capabilities. Furthermore, Hart (1995) argues that organisation respond to environmental protection is pivotal and could be best expressed in terms of the resource-based view of the organisation. Traditionally, RBV focused on the competitive implications of internal organisational resources and capabilities.

Resource-based studies have revealed that there are links between environmental strategy and organisational performance through organisational resources and capabilities (e.g.: Russo and Fouts, 1997; Sharma and Vredenburg, 1998). As a theory, RBV explained competitive advantage as an outcome of the development of organisational capabilities such as continuous innovation, organisational learning and stakeholder's integration when correlated with proactive environmental strategy (Hart, 1995; Sharma & Vredenburg, 1998).

Resource based view of organisations stressed that organisations themselves is a collection of capabilities unique to that organisations. Thus, the management's role is to develop and deploy these capabilities so as to obtain competitive advantage vis-a- vis the competition (Sharma & Vredenburg, 1998). Eventually, organisations resources lead to capabilities and capabilities influence organisational performance (Barney, 1991; Wernerfelt, 1984).

Wernerfelt (1984) notes that RBV define resources broadly as the asset, knowledge, capabilities and organisations processes that enable the organisations to conceive and implement strategic decisions. Barney (1986; 1991:106) pinpoints by bringing the external environment into the resource-based picture and "*exploit opportunities or neutralize threats*" in organisations environment, which would create valuable organisations' resources. Furthermore, McWilliams and Siegel (2001) denote that the resource-based view leads to a supply-side perspective, which begins with the realization that organisations must devote resources to satisfy the demand for CSR.

In summary, to support the framework for the development of CSR orientation, this study applies both the stakeholder's theory and resource-based view to explain the fundamental relationship between the integration of stakeholder's, organisations resources and capabilities in achieving a competitive advantage.

1.5 The Scope of the Study

Firstly, elements of CSR in this study are presented as organisational orientation for promoting sustainable development. These elements are organisational environmental orientation that examines how organisations manage their relationship with the natural environment in fulfilling the stakeholders' demands and needs. Secondly, marketing capabilities are represented as organisational learning and enviropreneurship. They are the capabilities used to achieve organisational performance. Organisational learning in this study is about organisations commitment to environmental learning, organisations shared vision and organisations open-mindedness when dealing with environmental issues in achieving organisational performance. Enviropreneurship is conceptualized as organisations resources that directly influence the organisations' marketing capabilities in building and sustaining competitive advantage. (Enviropreneurship derived from the term ecopreneurship (Schaper, 2002), and entrepreneurship).

Organisational performance is based on the financial and non-financial performance of organisations (Narver and Slater, 1990; Baker and Sinkula, 1999). The financial aspects measure the organisational performance in terms of the growth in sales, market, and new

product or services development while brand loyalty, corporate reputation, overall employee commitment and overall performance measured by organisations goals and objectives represent the non-financial aspects. Finally, the respondents to this study were senior managers of organisations in Malaysia which practices CSR and are involved in the organisations' decision making process. As such, the sample of this study is limited to organisations in Malaysia which practices CSR and integrates CSR into the organisations' agenda.

1.6 Potential Contributions of the Study

There are abundant studies done on CSR that investigates the elements of CSR from the perspectives of management, marketing, economic, law, ethical and discretionary individually. For example, Miles et al. (2006) study strategic conversations and collaboration with stakeholders in integrating CSR in the organisations' strategic plan; Brown and Dacin (1997); Drumwright (1994); Handelman and Arnold (1999); Osterhus (1997); Sen and Bhattacharya (2001) studies from a marketing perspective, a positive link between CSR and consumers' positive product and brand evaluations, brand choice, and brand recommendations from the organisations' economic benefits while Carroll (1991; 1979) studies based on how organisations meet the economic, legal, ethical and discretionary. However, this study specifically investigates the elements that constitute CSR from the management, marketing, economic, law, ethical and discretionary perspectives that lead to the development of marketing capabilities. These elements integrate the organisations' environmental orientation and corporate citizenship culture as

tools for the organisations to exhibit their corporate responsiveness and responsibility towards social concern and issues.

Secondly, this study contributes to the growing body of marketing literature on the subject matter where attempts to explain how organisations can generate greater organisation performance via implementing CSR Triple Bottom Line initiatives by using stakeholder's theory and drawing from the Resources Based View of Firm as a step toward generating marketing capabilities of the organisations. Furthermore, this study also examines the advantages organisations would gain through incorporate and participate in environmental issues and problems.

Thirdly, this study examines marketing capabilities, namely organisational learning and enviropreneurship, in an attempt to establish their relationship in enhancing organisational performance. The capacity of organisations to learn effectively is believed to play an essential role in entrepreneurship (Lant & Mezias, 1990). The organisations that promote entrepreneurship are organisations capable of creating, learning and influencing the environment. Furthermore, entrepreneurship creates wealth by concentrating on organisational learning (Garcia & Llorens-Monkes, 2006). Environmental education would helps employees to engage in environmental behaviours aspired by the organisations which consequently create a level of awareness about environmental issues in the employees themselves (Dechant & Altman, 1994). Conclusively, the more entrepreneurial organisations and the more learning-oriented they are, the more likely they will instil values which promote commitment to learning, open-mindedness, and shared-vision among the employees (Wang, 2008). Organisational

learning is a continuous process throughout the life of organisations, and plays an important role in the entrepreneurial process as organisations grow larger.

Finally, this study is carried out in Malaysia. It conceptualized CSR as an integrative approach that embraces marketing, economic, ecological, and social aspects with the aim to increase the benefits for society, in general, and for the stakeholders of organisations, in particular, which is an area that has very limited research (Banerjee, 2002) done in developing countries such as Malaysia. Up to date, such studies have been undertaken mainly in developed countries for example the United States of America, Great Britain, Europe and Australia. Ultimately, this study would develop a robust model for understanding the need to integrate CSR practices at the organisational level.

1.7 Organisation of the Study

The following is an overview of the study.

Chapter 2 reviews the past theoretical and empirical works on the variables and of the study. The proposed conceptual framework, the propositions of the study are presented at the end of this chapter.

Chapter 3 discusses the research design and research methodology of the study. It unfolds the research design, unit of analysis, sampling procedure, operationalisation of constructs, development of measurements and finally it focuses on reliability and validity assessments.

Chapter 4 illustrates the analysis of data. It examines the relationship between antecedents of CSR orientation and mediating variables and the relationship between mediating variables and organisational performance. It also investigates the mediating effects of marketing capabilities in the relationship between antecedents of CSR orientation and organisational performance. Finally, it also presents an integrated model of the study.

Chapter 5 provides directions for future research by summarizing the results, contributions, implications and limitations of the study.