

Corporate Social Responsibility and Offshore Outsourcing: Electrical and Electronics Firms in Malaysia

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Abstract: Offshore outsourcing (OO) of business activities from North to South does not only relocate investments and jobs, it has also brought about new business demands on suppliers' activities and their social and environmental impact. The objectives of the study are firstly, to explore whether OO activities of Malaysian firms (herein referred to as contracting firms) matter in corporate social responsibility (CSR) practices, and secondly, to examine whether government policy and support matters in the CSR practices of the contracting firms. The focus is on Malaysian based local or foreign (sub)contractors in the electrical and electronics industry. The findings of the study indicate, firstly, that the level of CSR practices is positively influenced by the degree of OO activities. In addition, the size of the company's workforce and degree of foreign ownership also have a significant impact on the firms' CSR practices, while no apparent relationship is found with firms' profitability and leverage. Secondly, it appears that the government plays an important role shaping the perception, rhetoric and organization of CSR activities by firms. However, most contracting firms do not recognize any support for CSR upgrading from the government or local institutions.

Keywords: corporate social responsibility, outsourcing, codes of conduct, contract manufacturer

JEL classifications: L14, L24, L25, M14

1. Introduction

The landscape of business, particularly that of the developed markets are changing as the market and consumers pressed for greater transparency and ethical practices from companies. The post Enron period has created an accelerating trend towards greater accountability that covers critical issues like corruption, child labour, global warming, pollution, discrimination and health and safety of workers, etc. Thus, building corporate social responsibility (CSR) practices are becoming an important factor and determinant in competing for the scarce human and financial resources.

CSR refers to a set of policies and strategies that is said to occur when companies integrate social and environmental concerns in their business operations and in their interaction with stakeholders. In fact, the CSR agenda is created to fill the vacuum in international business regulation brought about by the globalization of economic activities and the deregulation of economies in favour of the liberal market mechanisms (Pedersen, 2006: 7-25).

CSR has been conceived as a voluntary and corporate-driven agenda in the North, and thus the challenge for the developed countries is to move beyond the existing legislation. However, the CSR agenda in developing countries is different from that of the North because the CSR challenge in the South is to make firms comply with the legislation (Prieto-Carrón *et al.*, 2006: 977-987). In fact, in developing countries like Malaysia, the state agencies seem to play a crucial role in adopting and transforming the CSR discourse in line with the development strategies of the state and the interests of the government. Neither local firms, nor local civil society groups may have the interests or courage or capabilities to further the CSR agenda beyond the policies of the government. The potential role of public institutions in furthering CSR in developing countries have also recently been acknowledged by the World Bank (Fox *et al.*, 2002; Ward 2004; World Bank and IFC, 2004).

The attraction of abundant natural resources, cheaper labour, trading rules that favour local production and improved capabilities of both the global and local suppliers have led many firms in the United States and Europe to move more extensively towards an international contracting model. This trend leads to the term “offshore outsourcing” (OO) (Gereffi and Sturgeon, 2004: 4-7). “Outsourcing” involves delegating to a third party, the responsibility and authority for managing and operating a portion of the outsourcing company’s business at an agreed fee for a fixed period of time (Blumberg, 1998: 5-18). “Offshoring” refers to the decision to move supply of goods and services from domestic to “overseas” (foreign) locations (Gereffi and Sturgeon, 2004: 4-7).

Ideally, from the developed countries’ perspective, the OO activities help shift out the low-value activities and old industries, freeing up capital and human resources for higher value activities, and help in the development of newer industries and cutting edge products. From the perspective of developing countries, OO offers benefits such as jobs, skills and access to foreign markets. However, empirical evidence shows the increasing dependency, lock in and races-to-the-bottom as developing countries compete for contracts (Kaplinsky, 2000: 117-146; Humphrey and Schmitz, 2001: 7). In addition, the thresholds for accessing the OO markets have been increasing due to the rise of international quality standards and certification requirements instigated by the foreign firms (herein referred to as lead firms) (Gibbon and

Ponte, 2005: 5-10; Wad, 2006: 233-261), and CSR are part and parcel of this new standard setting (World Bank and IFC, 2004).

For Malaysia, an industrializing country in transition from a labour intensive to a technology intensive economy (Rasiah, 2003: 305-333), OO from the Global North has played a crucial role in a deliberate government strategy of catching up; and with the rise of the corporate governance agenda after the financial crisis 1997-98, CSR was easily added.

The objective of this study is to explore whether OO linkages influence CSR practices of Malaysian firms (herein referred to as contracting firms). The focus is on Malaysian vendors, contract manufacturers or subcontractors and their reception of, strategizing about and organizational adoption of CSR activities. The hypothesis is that the relationship between the level of OO and the degree of CSR practices is expected to be positive, although it is not anticipated that OO is the only explanatory factor of CSR practices of Malaysian firms.

The findings of the study indicate that the degree of CSR practices is positively influenced by the level of OO of the contracting firms. In addition, the study also concludes that other firms' attributes, namely the size of the company's workforce and degree of foreign ownership have a significant impact on the firms' CSR practices, while no apparent relationship is found with firms' profitability and leverage.

The local CSR agenda is influenced by both economic globalization and domestic policies and strategies. Hence, firms in Malaysia are squeezed by international business linkages and the local institutional context. Nevertheless, the firms do not seem to have established any systematic approach or applied any integrated and coherent CSR strategy for CSR upgrading.

The paper is structured as follows. It starts with the introduction. Section two presents an overview of the institutional development of CSR in Malaysia, while section three describes the relevant theories relating to CSR and OO. Section four briefly outlines the methodology, research hypotheses and analytical framework applied in the study. In section five, the empirical data are analysed and the interplay between OO and CSR is discussed. Section six winds up the analysis and presents the limitations of the study and suggestions for future research.

2. Institutional Development

The emergence of a Malaysian CSR discourse takes place in a hybrid political economy, where the economy has been very open in terms of foreign trade and foreign direct investments for decades while the political system is very closed, defending the newborn sovereignty of 1957. The financial crisis of 1997-98 changed the political perceptions of corporate governance and

nurtured the rise of a new CSR discourse. The section outlines the changing political economy of Malaysia, the government's construction of a new CSR agenda, and the roles played by non-government organizations and the business community; and finally, Malaysia's CSR record as assessed by international standards.

2.1 The Political Economy of CSR in Malaysia

Malaysia is a multi-ethnic industrializing society that has been ruled by a coalition of ethnic based parties, called Barisan Nasional (BN) for decades. Since 1971 Malaysia has pursued and implemented an affirmative strategy in favour of the Bumiputeras (Malays and other indigenous groups) community, in order to elevate the Bumiputeras to economic equality with the Chinese and Indian communities and to alleviate poverty among the Bumiputeras. This development policy has tried to mobilize foreign direct investment (FDI) and partnerships with trans-national companies, while simultaneously supporting development of a Bumiputera Commercial and Industrial Community (BCIC). As a result, foreign owned corporate equity declined while both the "Bumi" and the "non-Bumi" Malaysian owned equities increased (Government of Malaysia, 2001).

However, in the wake of the East Asian crisis 1997 the issue of good corporate governance became a key issue internationally and among East Asian countries. Northern countries and international financial institutions claimed that the debacle of the East Asian Miracle was due to deregulation of developmentalist regimes or bad corporate governance, especially corruption and "cronism" (Jomo, 1998: 1-32; Rodan *et al.*, 2001: 1-43). During the financial crisis, Malaysia enacted controversial anti-IMF crisis governance, which re-regulated and restricted the cross-border flow of FDI for some time. Although the policy prevented the Malaysian economy from a meltdown and the Malaysian business community (especially the BCIC) from bankruptcy, it changed the reputation of Malaysia as a pro-FDI country.

As a result, the FDI inflow has never regained its former momentum. It dropped from USD7.3 billion in 1996 to USD2.7 billion in 1998, and recovered at a level of USD6 billion net in-flows in 2006. The capitalization of the stock market in Malaysia decreased slightly from 1996 to 2006 while the stock markets in Hong Kong, South Korea, India and Singapore increased several times (*Economist*, 2006). As stock market capitalization is an indicator of investors' confidence in the effective corporate governance of public limited companies, Malaysia's reputation has fallen behind several of its regional competitors for FDI.

In addition, political uncertainties in the aftermath of the general election held during March 2008 have also taken a toll on the Malaysian equity

market. The election results saw the ruling BN coalition losing its two-third majority and the opposition Pakatan Rakyat taking control of five states which, combined, contributes some 60% to total GDP (*The Edge*, 2008: 8).

2.2 *The Government's New CSR Agenda*

In order to demonstrate its commitment to achieve economic progress that is consistent with good personal values and corporate ethics, the government formulated the Malaysian “Business Code of Ethics” in 2002 and supplemented the code with a “National Integrity Plan”. This was followed by the establishment of the Integrity Institute of Malaysia (IIM) in 2004. Among the key objectives to be achieved by IIM within the next five years are the need to enhance the standards of corporate governance and business ethics and also to improve the quality of life and the well being of the citizens.

The state investment arm, Khazanah Nasional Bhd (KNB), launched *The Silver Book* on September 2006 under its Government-linked Company Transformation Programme, in line with the government’s commitment and determination to support the development of the government-linked companies (GLCs). GLCs are seen as the drivers of the Malaysian corporate sector by the government because they “comprise more than a third of the capitalization of Bursa Malaysia and half of the KL Composite Index” (Yakcop, 2007). *The Book* provides guidelines for GLCs to conduct their CSR activities that are in line with their business objectives and corporate philosophy, as well as enhancing stakeholder and shareholder value (Khazanah Nasional Bhd, 2006).

The Malaysian government is also demanding that the public listed companies (PLCs) report on their CSR practices (Yakcop, 2007). To assist the PLCs in this respect, Bursa Malaysia (BM) launched the CSR framework in September 2006. The framework represents a set of voluntary guidelines for PLCs and GLCs to address matters related to responsibility and ethics in the course of their normal pursuit of profits (Bursa Malaysia, 2006).

Interestingly, BM contends that the government has not taken the initiative in CSR. “Contrary to Europe where the UK government and the EU Commission have expanded ethical resources in pension funds,” it is stated that: “in Malaysia we focus much more on competitiveness” (BM interview 2006-12-04). However, “no one really looked into what the PLCs were doing”. As for the GLCs, the government wants to increase their competitiveness through improvement in their CSR record. Yet this approach had partly been influenced by civil society: “Many NGOs have been actively promoting CSR for years in Malaysia even within political parties” (BM interview 2006-12-04). Hence, it is ironic that the NGOs have been successfully promoting the CSR discourse for years, but when it is adopted at least rhetorically by

state agencies and the government, the overriding purpose is to increase competitiveness and profitability in an international market environment.

Another key player in the construction of the Malaysian discourse on CSR has been the Securities Commission (SC). The SC focuses on raising public awareness about CSR issues. In addition, the SC's statement on its CSR agenda (SC interview 2006-12-15) discloses that:

“SC is keen to see more companies incorporate CSR into their corporate governance agenda to increase their profile, so that they can gain recognition from the perspective of international and domestic institutional investors. In tandem with the guidelines of the UN Global Compact which is consistent with the teaching of Islam, it is also in SC's agenda to establish Malaysia as the centre for an international Islamic capital market in line with the Capital Market Masterplan.”

It is a bit surprising that the SC encourages Malaysian firms to join the UN Global Compact because this Compact requires that the participants endorse the core ILO labour rights, including the freedom of association, which the Malaysian government does not accept nor has it been ratified by the parliament!

2.3 Non-governmental Organizations and the Business Community

The Institute of Corporate Responsibility (ICR), a private initiative fully supported by the SC, BM and KNB, was established in November 2006 to promote socially responsible business practices. Apart from organizing conferences, dialogues, workshops and exchange of ideas, ICR collaborated with the newspaper publishing house The Star, in 2008 for the inaugural StarBiz-ICR Malaysia Corporate Responsibility Awards, whereby companies demonstrating outstanding CSR practices would be honoured. According to ICR, the award is significant as the institute wanted to move from building awareness to embedding responsible behaviour in strategy (*StarBiz*, 14 April 2008).

Another initiative to identify and reward corporations for the disclosure of environmental, social or full sustainability information is the annual ACCA Malaysia Environmental and Social Reporting Awards (MESRA), organized by the Association of Chartered Certified Accountants (ACCA). The MESRA award winners for 2007 were Nestle (M) Bhd and UEM Environment (M) Sdn Bhd for social and environmental reporting categories respectively (*The Star Online*, 2008).

According to the ACCA report titled “The State of Corporate Environmental Reporting in Malaysia” published in early 2002, corporate environmental reporting (CER) in Malaysia was still in its infancy. Chan (2000) argues that government's direction to disclose environmental information is

the influence most likely to cause a change of practice. Tan *et al.* (1990: 2-7) concluded that voluntary disclosure in Malaysia is an exception rather than the norm despite the fact that users would prefer to see more non-mandatory information. Thompson and Zakaria (2003: 375-385) comment that the lack of pressure from other stakeholders such as the NGOs and pressure groups may explain why few companies take CER seriously. They further elaborate that CER requires the companies to be transparent and open, characteristics that are far from prevalent in Southeast Asian cultures.

The CSR 2007 Status Report commissioned by BM reveals that the PLCs generally lagged behind international best practice in CSR disclosure and practice due to lack of knowledge and awareness. Using BM's CSR framework (defined based on the four dimensions of marketplace, workplace, environment and community) as the benchmark for measurement, the report revealed that only one-third of the 200 PLCs surveyed was either in the above average, good, or leading categories for CSR practices; the remaining two-thirds of PLCs were ranked either as average (27.5%), below average (28.5%) or poor (11.5%). Listed multi-national companies achieved the highest score. The survey also found that high risk PLCs, which include companies in industries that were more regulated because of the nature of their business and their inherent social and environmental impact such as tobacco, alcohol and gaming, scored better results. In addition, the report revealed that few PLCs assessed their environment and there were little measure in place to improve diversity (Bursa Malaysia, 2008).

Nonetheless, it is important to note that the small and medium sized enterprises ("SME") which form the backbone of Malaysia's economic structure are still lagging behind in terms of CER, or CSR for that matter. This is because these companies view managing environmental and social matters a time consuming and unproductive affairs. The SMEs constituted 92% of the total number of companies registered with the Companies' Commission of Malaysia. 29.1% of manufacturing output comes from SMEs and they easily account for one third of the total employment. Thus their aggregate influence on environment and society should never be underestimated (Sustainability, 2005).

2.4 Malaysia's CSR Performance in International Perspective

Taking an international CSR standard perspective the record of Malaysia is rather bleak. The Malaysian government has ratified most of the core international labour rights except the right to form independent trade unions, for example, preventing the formation of a large electrical & electronics industrial union. However, the enforcement of these ILO labour rights are far from international standards and the Malaysian Trades Union Congress

complains about violations of trade union rights (MTUC, 2002; ITUC, 2007). Presently, the government together with the National Institution of OHS have established legislation of occupational health and safety standards together and also upgraded its environmental policy and planning.

However, the government is not known for taking a pro-active and progressive stance in practice on international labour rights, occupational health and safety standards and environmental issues. In fact, Malaysia does not rank high or even appear on several international CSR indexes, for example:

- a) There is only one firm – a foreign controlled firm (Dupont Malaysia Sdn Bhd since 2003)² that appears in the UN Global Compact 2007 list for Malaysia;
- b) No Malaysian bank participates in the group behind the IFC Equator Principles;
- c) Malaysia does not adhere to the OECD Guidelines for Multinational Enterprises although other non-OECD countries like Brazil do (UNCTAD, 2006: 233-235);
- d) In terms of SA 8000 only two Malaysian firms were registered by June 2006 (Social Accountability International, n.d.): Pan Century Edible Oils Sdn. Bhd. which manufactures palm oil and palm oil products, and Pan-Century Oleochemicals Sdn. Bhd. that makes and distributes acids and glycerine;
- e) In 2004, only two Malaysian incorporated companies, the BAT Malaysia and Sime Darby, appeared on the Dow Jones Sustainability World Index (DJSI) among 310 companies; and BAT was accused of initiating trade union busting in 2006 by the global union federation, IUF (Osborne, 2007).
- f) Only 26 Malaysian companies including the Golden Hope Plantations Berhad subscribed to the Malaysian Chapter of the Global Forest and Trade and hence to minimum certification standards (Razak, 2004).

3. Theoretical Guide

3.1 Legitimacy and Social Contract Theories

Friedman's (1970: 122-126) prescription of "the business of business is business" has been under fierce attack from various stakeholders in recent times. He argues that an organization's one and only one social responsibility is to maximize profits for its shareholders, and that the organization would have already utilized part of its profits for taxation and other statutory payments, thus any further obligations put on it by the society would be deemed as an "illegal tax". In fact, he equates the effort to use corporate resources for purely altruistic purposes to socialism.

However, organizational legitimacy does not arise from merely making a profit and abiding to legal requirements. Lindblom (1983: 220-221) defines organizational legitimacy as “a condition or status which exists when an entity’s value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity’s legitimacy.”

A social contract is a phenomenon that envelopes the whole legitimacy process (Deegan, 2002; Khor, 2004; Wartick and Cochran, 1985). According to Godfrey *et al.* (2006: 637-640) the social contract aims to explain the boundaries of acceptable interaction within the society. Donaldson (1982: 25-30) shares a similar belief that corporate management, via its social contract with other stakeholders within the community, aims to perform socially desirable actions, which become CSR activities, in return for acceptance of their entity’s objectives, and hence gain organizational legitimacy. Thus, management actions are guided by social expectations of their performance. Deegan and Rankin (1996: 41-52) state that a breach of social contract, i.e. failure to comply with societal expectations may lead to a revocation of contract. As a result, a corporation will cease to trade profitably, lose its customers, destroy its shareholders’ wealth, or may even cease to exist eventually. For example, the Enron debacle not only brought the collapse of the corporation, it also led to the demise of the once globally reputable accounting firm Arthur Anderson (Weiss, 2006: 272-278).

3.2 Stakeholder and Resource Dependent Theories

The stakeholder theory is a theory assessing the role of actors in the firm’s environment. Freeman (1984: 5) defines a stakeholder as “any group or individual who can affect or is affected by the achievement of an organization’s objectives.” He argues that stakeholder management is central to putting any conception of CSR into practice. Stakeholder management directs management to pursue outcomes that optimize the results for all involved stakeholders rather than maximizing the results for one stakeholder group (shareholders). The firm’s management must therefore strive to put organizational resources to their most economically productive use and establish proper control systems to ensure that this occurs, or face eventual dismissal (Jones, 2005: 10-13). For example, Nike’s contract factories in Indonesia were alleged to have abused the labour force; as a result, it suffered damages to its corporate reputation, brand value and of course a drastic fall in its shareholders’ value (Sweatshop, n.d.). Another example would be the case of Bougainville copper and gold mine in Papua New Guinea in the late 1980s operated by Bougainville Copper Ltd, where non-satisfactory environmental

and community relationships management eventually led to the closure of the world's biggest open cast mines then (Riar, 2006: 25-27).

According to Lee (2003), the resource-dependence theory can be used to explain why corporations consider stakeholders' interests or norms and try to respond to them by using CSR activities. Resource-dependence theory states that an organization needs to reply to the demand of those in its environment that provide resources necessary for its continued survival. Thus, the ability of stakeholder communities to withdraw the organizational resources gives them power over the organization. Stakeholder communities can use their own power to advocate responsible corporate behaviour; and corporations respond to these stakeholders through CSR activities.

3.3 Agency and Global Value Chain Theories

The environment of business in the new millennium has become extremely complicated, competitive and turbulent. With increasing societal pressure, the lead firms are increasingly held responsible for the conditions under which their products are being produced. Keasing and Lall (1992: 176-193) argue that producers in developing countries are expected to meet requirements that frequently do not apply to their domestic markets. This may create a gap between the capabilities required for the domestic market and those required for the export market, which raises the degree of monitoring and control required by the lead firms. As a result, the lead firms adopt the concept of CSR by introducing codes of conduct, which is a set of written principles, guidelines or standards that are expected to ensure socially responsible business practices throughout the global value chain. These codes often go well beyond the boundaries of the individual organization and include social and environmental requirements for suppliers (Jenkins, 2005: 104-120).

In order to successfully implement these codes, active commitment from all parties in the global value chain is required. However, the incentive to comply with the codes does not necessarily extend to all the actors in the chain. Moreover, enforcement is difficult because the companies involved are separated geographically, economically, legally, culturally and politically (Pedersen, 2004).

The lead firm-contracting firm relationship can be further understood by examining the principal-agent relationship. Agency theory assumes that individuals are self-interest creatures. In order to avoid opportunism, it is necessary to provide the agent with incentives to act in accordance with the principal's interests. This can be done either by monitoring behaviour or rewarding outcomes. Specifically, the lead firm secures compliance with the OO cum CSR contract through monitoring and sanction against non-compliance (opportunism). Opportunism in relation to codes of conduct and

other CSR standards becomes relevant due to the fact that these initiatives can be costly and time consuming (Godfrey *et al.*, 2006: 637-640).

Opportunities can easily be dealt with if the codes of conduct include all contingencies. However, most codes of conduct are incomplete, lack efficient monitoring systems, and have lofty intent and purpose without specific content. Therefore, the potential conflict of interest between the companies and the incomplete nature of codes of conduct makes it relevant for the initiator of the codes of conduct (that is the lead firm) to safeguard from non-compliance on part of its contractor. Safeguards, or protective mechanisms, are basically means to ensure that an agent fulfils his or her obligations according to the agreement (Koch, 1995: 1-32). Pedersen (2004) discusses six safeguards for securing compliance with codes of conduct in global supply chains which all apply to OO cum CSR activities in global value chains (GVC): direct sanctions, goal congruence, third party intervention, trust, and reputation effects. In a similar way, Gereffi *et al.* (2005: 1-32) contend that network actors can control opportunism through the effect of repeated transactions, reputation and social norms that are embedded in a particular geographical location or social group.

3.4 Towards an Integrated Theoretical Perspective

OO and CSR are not entirely new phenomena in international business, but they attracted increasing public scrutiny and debate in the global North during the 1990s and early 21st century in the wake of rapid economic globalization, offshoring of jobs on a massive scale, disclosure of corporate financial scandals and breach of international labour and environmental standards.

With the expansion of the global value chain (GVC), leading corporations with global activities increasingly engaged developing country firms in non-equity based business transactions while disintegrating and focusing their vertically integrated corporate structures around their core competencies and activities. Concomitantly, the thresholds for accessing global value chains have been increasing as indicated by the rise of international quality standards and certification requirements instigated by corporate chain leaders, while GVCs simultaneously turned out to be or changed into bi-polar or multi-polar driven chains (Gibbon and Ponte, 2005: 5-10; Wad, 2008: 47-64). Finally, the lead firms in the North have increasingly engaged in developing and implementing governance forms and safeguards, in order to enhance cost-reduction, quality improvement and reliable delivery, and also to prevent opportunism and non-compliance of contract agreements among OO contracting firms in developing countries. In sum, agency theory can be seen as part of the wider GVC perspective, while the weaknesses of GVC theory in institutional matters are remedied by adding legitimacy theory and stakeholder theory.

4. Methodology

The literature review on the CSR discourse in Malaysia and CSR-oriented social research disclose that a CSR agenda is emerging especially after the East Asian financial crisis, and that the government and government-linked institutions and corporations seemed to promote the CSR agenda (Teoh and Thong, 1986: 1-22; Abdul Rashid and Ibrahim, 2002: 10-16; Tay, 2006: 34-37; Zulkifli and Amran, 2006: 101-114). Even international surveys have been undertaken based on investigation of corporate websites (Chapple and Moon, 2005: 415-441) or written policies of large corporations (Welford 2005: 33-52). However, few case studies have been conducted, and they were directed toward foreign transnational companies like Swedish SKF with manufacturing operations in Malaysia (Johansson and Larsson, 2000). No published case-oriented field study of Malaysian companies has been identified. Hence, an explorative type of a multiple case study within the manufacturing sector was applied before the present survey was conducted (Wad and Chong, 2007).

The study focuses on manufacturing firms in the electrical and electronics (E&E) industry located in and around the states of Selangor, Melaka, Negeri Sembilan, Perak, Johor and Penang. The E&E industry is the largest contributor to output, exports and employments opportunities in Malaysia, and thus the most suitable industry to carry out the study. Based on Malaysian Industrial Development Authority (MIDA)'s records, there are 1,385 companies in operation with investments of RM72.2 billion, and employment of more than 548,000 persons or 8.3% of total employment in the manufacturing sector (Malaysian Industrial Development Authority, 2007). In 2005, Malaysia's exports of E&E products worth RM264.7 billion accounted for 64.1 per cent of Malaysia's total exports of manufactured goods. In addition, Malaysia is a major destination for outsourcing after China and India. It is also one of the world's largest exporters of semiconductor devices, electrical goods and appliances (*Economic Report, 2005/2006*).

4.1 The 2007 Survey

A sampled set of seventy (70) E&E manufacturing firms (approximately five per cent (5%) of the total E&E firms in operation) has been taken from the Federation of Malaysian Manufacturers (FMM) Directory for 2007. These sample firms comprise twenty-nine (29) foreign owned firms, twelve (12) locally owned firms and twenty-nine (29) joint venture firms. Only firms with more than 100 employees and export their products to developed countries (as per the FMM Directory) were selected for this study. Purpose sampling (Eisenhardt, 1989: 532-555; Patton, 2002: 312-330) was employed whereby firms with ISO/OHSAS certifications were chosen, as they were deemed to

be information-rich cases that would provide us a better understanding of the linkage between CSR and OO. Between one to three interviews were undertaken with each company and often with the person in charge of CSR or higher executive position. Additional data were provided (company reports, booklets, etc.) by the respondents or retrieved from company web pages, press reports and other sources. No factory visit was carried out in any case.

In addition, several interviews were made with representatives from Malaysian institutions and organizations which appeared to relate to the emerging CSR agenda, e.g. the Security Commission (SC), the Kuala Lumpur Stock Exchange/Bursa Malaysia (BM) and the ACCA organization. Also, interviews were undertaken with the Centre for Environment, Technology and Development Malaysia (CETDEM) and the Malaysian Trades Union Congress (MTUC).

4.2 Analytic Framework

Based on the literature review and the integrated theoretical perspective of agency theory, GVC theory and stakeholder theory the study has three hypotheses. Firstly, the relationship between CSR practices and the degree of foreign (sub)contracting is expected to be positive. Secondly, other features of the OO relationship like firm size, foreign ownership and profitability will positively influence the CSR practices of the contracting firm while firm leverage will affect CSR practices negatively. Thirdly, the local regulatory environment neither influences the contracting firm's compliance with the codes of conduct nor supports the upgrading of the contracting firm's CSR agenda.

For the purpose of this study, the focus will be on contracting companies in the OO relationship. It is also important to note that the study does not undertake an investigation of transaction relationships between the business parties. This means that the lead firm does not appear with capability and strategy in its own right. Instead it appears only as the driver of competitive principles (such as cost, quality and niche) as perceived by the contracting firms.

4.3 Empirical Model

The approach to the analysis of the OO-CSR nexus of Malaysian firms is to develop a data matrix comprising of the profiles of the companies, their CSR conceptions, implementation of quality standards, institutional support and their CSR organization, activities and performance (upgrading) and relate these factors to the CSR capability as perceived by the Malaysian firms.

4.4 Specification of Variables

4.4.1 Dependent Variable: CSR practices

The operationalization of the CSR practices is focused on three issue areas, namely occupational health and safety, environmental sustainability and labour practices. Content analysis is used as the technique for measuring CSR practices for this study. Content analysis is a technique whereby qualitative information is codified into categories in order to derive quantitative scales of varying levels of complexity. Information is commonly gathered from annual reports, company websites, surveys, interviews, personnel handbooks and media sources (Abbot and Monsen, 1979: 501-515; Cochran and Wood, 1984: 42-56; Bowman and Haire, 1975: 49-58).

The biggest challenge has been to determine the proxies for each of these three issue areas. Apart from using international standards such as OHSAS 18001 and ISO 14001 and other codes of conduct such as the Electronics Industry Codes of Conduct (EICC), it is also important to take into consideration the contracting firms' voluntary initiatives, their demand on the suppliers to address CSR issues and their future plans to improve the firms' CSR profile, organization and routine because these proxies reflect the actions and decision making of the firms pertaining to CSR practices. A dichotomous procedure was applied whereby a sample firm was awarded a score of one if a proxy was disclosed and a score of zero if it was not disclosed (Mohd. Ghazali, 2007: 251-266).

4.4.2 Independent Variables

(a) OO activities

The level of OO was measured based on the average percentage of annual foreign contracts or subcontracting deliveries over the total company sales turnover for the financial year ending 2007.

(b) Firms' attributes

Previous studies have been carried out to examine the relationship between the CSR practices/disclosures and firms' attributes such as size, ownership, profitability and leverage (Trotman and Bradley, 1981: 355-362; Hackston and Milne, 1996: 77-108; Mohamed Zain, 1999; Mohamad and Ahmad, 2001; Mohamed Zain and Jangu, 2006: 85-114). The results were mixed. To the best of the researchers' knowledge, there is no prior academic research in Malaysia studying the significance of firms' attributes on the CSR practices of E&E firms that engaged in OO activities. Thus, for the present study, the following firms' attributes were measured and examined:

- a) Firm size (SIZE) – Most of the past studies on CSR measured company size by using indicators such as the firm's assets, paid up share capital, profitability and turnover on CSR (Spicer, 1978: 151-170; Watts and Zimmerman, 1986: 42-45; Cowen *et al.* 1987: 111-122; Mohamad and Ahmad, 2001; Mohamed Zain and Janggu, 2006: 85-114). In view of the fact that the present study is examining labour and environmental related issue areas, it would be appropriate to measure firm size by the number of employees. Hence, SIZE was measured as follows:

$$\text{SIZE} = \text{actual employment of sampled firms in 2007}$$

- b) Foreign ownership (OWN) – Foreign ownership is the extent to which the firm's equities are being owned by foreigners. For the present study, foreign ownership was estimated as follows:

$$\text{OWN} = \text{foreign equity/total equity}$$

- c) Profitability (PROF) – Profitability as used in this study refers to:

$$\text{PROF} = \text{average return on asset (ROA) for the period 2003 to 2007 (5 years) as extracted from the annual reports}$$

- d) Leverage (LEV) – Financial leverage is about the availability of cash flow to meet contractual obligations. Leverage was measured as follows:

$$\text{LEV} = \text{average total debt to total assets (D/A) for the period 2003 to 2005 (5 years) as extracted from the annual reports.}$$

4.4.3 Statistical Instruments

Correlation coefficient analysis (CCA) and Ordinary Least Square (OLS) regression analysis were used to test the hypothesis that the relationship between CSR practices and the degree of foreign (sub)contracting is expected to be positive. The OLS model used is as follows:

$$\text{CSR} = \hat{\alpha}_0 + \beta_1 \text{OO} + \beta_2 \text{SIZE} + \beta_3 \text{OWN} + \beta_4 \text{PROF} + \beta_5 \text{LEV} + \mu$$

where CSR = the degree of CSR practices; OO = the percentage of foreign (sub)contracting over total turnover; SIZE = the number of employees; OWN = the percentage of foreign ownership of the sample firms; PROF = mean ROA from financial period 2003 to 2007; LEV = mean D/A from financial period 2003 to 2007; $\hat{\alpha}_0$ = intercept; β = regression coefficients; μ = the stochastic error term.

Before the results of the analysis are discussed, the assumptions of CCA and OLS regression analysis are first investigated. The normality, linearity and homoscedasticity assumptions were determined based on the analysis of residuals, histogram, scatterplot of the standardized residuals against predicted

values and the normal P-P Plot. The tolerance and variance-inflation factors were computed to detect multicollinearity problems. No violation of the assumptions was found.

5. Interplay between OO And CSR

5.1 Main Findings

Table 1 shows the distribution of CSR practices for the seventy sample firms. Among the three issue areas, environmental sustainability registered the highest score in all the proxies, followed by occupational health and safety and

Table 1: Distribution of CSR practices among the sample firms

Issue Areas	Proxies	No. of Firms that Achieve/ Adopt	Percentage based on 70 Firms
Occupational health and safety	International standards/directives:		
	* OHSAS 18001	20	29
	* Other standards and directives	1	1
	Voluntary initiatives	10	14
	Demand on suppliers	2	3
	Future plans	11	16
Environmental Sustainability	International standards/directives:		
	* ISO 14001	47	67
	* Other standards and directives	8	11
	Voluntary initiatives	24	34
	Demand on suppliers	14	20
	Future plans	20	29
Labour Practices	International standards/directives	0	0
	Voluntary initiatives	13	19
	Demand on suppliers	1	1
	Future plans	10	14
Others*	International standards/directives:		
	* EICC	2	3
	Voluntary initiatives	4	6
	Demand on suppliers	0	0
	Future plans	5	7

Note: * Others refer to the proxies that are related to all three issue areas.

lastly labour practices. The findings are consistent with Abbott and Mosen's (1979: 501-515) study which showed that environmental matters constitute the most frequent mentioned area in the annual reports of the *Fortune 500* companies. However, previous studies on Malaysian companies showed that human resources theme was the most popular topic of disclosure (Teoh and Thong, 1986; Andrew *et al.*, 1989: 371-376; Hactkston and Milne, 1996: 77-108; Kuasirikun and Sherer, 2004: 629-660; Janggu *et al.* 2007). Thus, the findings appear to imply that the Malaysian companies are reacting positively to the protection of the environment as well as human resources issues.

In addition, the sample firms were asked about their perceived CSR capability in meeting the lead firms' demands. The answers provided by the respondents were a bit surprising because 90 per cent expressed that they could meet the lead firms' demands about CSR standard upgrading while 10 per cent said that it would depend on specific CSR standards in question. This finding is questionable as CSR is a new and emerging agenda which Malaysian firms are not yet prepared to handle in a proper way. One possible explanation could be that the firms perceived the CSR agenda as rather simple and less challenging. In fact, 61 per cent of the selected firms claimed that they took the CSR problem areas as simple while only 31 per cent view CSR as complicated, and 8 per cent express that the answer depended on the CSR issue involved. This could be related to the low level of awareness and understanding among the firms pertaining to the true essence of CSR, and this ignorance was reflected in their perception. This is in line with Amran's (2006) study which eventually concluded that Malaysian firms practice CSR in the absence of proper understanding of the concept of CSR itself. The alternative explanation could be that the firms did possess knowledge and experience complying with international quality standards including CSR standards like the ISO 14001, OHSAS 18001.

When asked about the strategizing of CSR activities, thirty or 43 per cent of the sample firms stated that they had not been forced to CSR upgrading by the lead firms or competitors. It is interesting to note that among the remaining forty or 57 per cent of sample firms that claimed that they had been forced to CSR upgrading by lead firms and competitors, only eight firms received support from the lead firms/customers, commonly in the form of in-house training and technical assistance. As for CSR routine, an overwhelming seventy-eight per cent (78%) of the sample firms claimed they had incorporated environmental issues in the operation routine, while only 43 per cent say social issues were incorporated in their operation routine.

Table 2 shows the distribution of the sample firms according to the degree of CSR practices and the level of OO. It can be seen that among the eight (11 per cent) firms that did not have OO, five firms had registered a low level of CSR practices, while only one firm indicated a high level of CSR practices.

Table 2: Distribution of sample firms according to the degree of CSR practices and the level of OO

OO Sales/ Total Turnover	No. of CSR Practice			Total no. of firms
	Low 0 - 1	Moderate 2 - 3	High 4 - 5	
No OO	5	2	1	8
Minor (1 - 32%)	6	12	6	24
Substantial (33 - 66%)	3	15	8	26
Most (67 - 100%)	0	3	9	12
Total no. of firms	14	32	24	70

Among the remaining sixty two (89 per cent) firms that had OO in varying levels, nine out of the twelve firms with most (67-100 per cent) OO registered a high level of CSR practices (4-5 CSR practices) while three firms showed a moderate level of CSR; there were no firms with low level of CSR practices reported for this category of companies. As for the firms that had minor and substantial degree of OO, the findings showed at least half of these firms had a moderate level of CSR practices. Hence, these results indicated that, generally, firms with no OO had a low level of CSR practices, while firms with minor to substantial degree of OO sales had a moderate level of CSR practices, and finally, firms with a high level of OO tend to have high level of CSR practices.

5.2 Descriptive Statistics

Table 3 provides the descriptive statistics of the dependent and independent variables in this study. From Table 3, it can be seen that the mean for the level of CSR practices is 2.74, with a minimum level of zero and a maximum level of five; while the level of OO ranges from 0 per cent to 90 per cent, with an average of 37 per cent. Next, the sample firms are recorded to have an average total employee size of 1,310. The largest size firm has a total of 11,292 employees, while the smallest firm has only 120 employees. As for foreign ownership (OWN), a mean of 69 per cent was registered. This indicates that on average, 69 per cent of the equity of the sample firms is held by foreigners. Profit wise, the most profitable sample firm recorded an average ROA ratio of 69 per cent for the five financial years ending 2007, while the most unprofitable firm has a negative average ROA of 97 per cent for the same period. The mean of the ROA for the sample firms is 13 per cent. As for

Table 3: Descriptive statistics

Variables	Mean	Minimum	Maximum
CSR	2.74	0	5
OO (%)	37	0	90
SIZE	1,310	120	11,292
OWN (%)	69	0	100
PROF (%)	13	-97	69
LEV (%)	51	11	99

Notes: N = 70. CSR = The level of CSR practices; OO = The degree of foreign (sub)contracting; SIZE = Number of employees; OWN = The degree of foreign ownership; PROF = Firms profitability; LEV = Firms leverage.

the firms' leverage, the level varies from an average debt to asset (D/A) ratios from 11 per cent to 99 per cent for the five financial years ending 2007, with a mean D/A of 51 per cent.

5.3 Correlation Coefficient Analysis

Table 4 shows the correlation coefficient matrix among CSR, OO, SIZE, OWN, PROF and LEV. The results show that there was a moderately strong and positive correlation between CSR and OO ($r = .47$, $n = 70$, $p = <.0005$). This means that the higher the level of OO, the higher will be the degree of CSR. In addition, the results also indicate that CSR is positively and significantly correlated with SIZE ($r = .42$, $n = 70$, $p = <.0005$), which is consistent with prior studies (Patten, 1991: 297-308; Hactkston and Milne, 1996: 77-108; Abdul Hamid, 2004: 118-230; Amran *et al.*, 2007: 21-30), but contradicts the studies by Mohamed Zain and Janggu (2006: 85-114) and Janggu *et al.* (2007) which found that the positive relationship between these two variables was weak in nature. As for foreign ownership, the results imply that there is a moderately strong relationship between CSR and OWN ($r = .40$, $n = 70$, $p = <.0005$), which mean that the higher the level of foreign ownership, the more likely the firms would be socially responsible. This is consistent with Teoh and Thong's (1986: 1-22) and Andrew *et al.* (1989: 371-376) studies which show that larger and foreign owned firms are found to disclose more social information in their annual report. As for the findings with respect to CSR and profitability, they have a p-value of more than 0.05 which shows that there is no significant relationship between CSR and PROF. This implies that profitable companies are not necessary the ones that have a high degree of CSR practices, and thus, further reinforces the findings of other studies, namely Patten (1991: 297-308), Hactkston and Milne (1996: 77-108),

Table 4: Correlation Coefficient Matrix among CSR, OO, SIZE, OWN, PROF and LEV

Measures	CSR	OO	SIZE	OWN	PROF	LEV
CSR	1.000	.472**	.417**	.398**	.020	.011
OO		1.000	.226*	.086	.089	-.131
SIZE			1.000	.309*	.119	-.009
OWN				1.000	-.096	-.148
PROF					1.00	-.359**
LEV						1.00

Notes: N = 70; CSR = The level of CSR practices; OO = The degree of foreign (sub)contracting; SIZE = Number of employees; OWN = The degree of foreign ownership; PROF = Firms profitability; LEV = Firms leverage.

* Correlation is significant at the 0.05 level (2-tailed);

** Correlation is significant at the 0.01 level (2-tailed).

Richardson and Welker (2001: 597-616) and Abdul Hamid (2004: 118-230) but contradicts the findings by Janggu *et al.* (2007). Also evident from Table 4 is the insignificant correlation of CSR and LEV, which confirmed the findings of previous studies by Trotman and Bradley (1981: 355-362) and Mohamed and Ahmad (2001) that show no relationship between these two variables. This means that the level of debt a firm has does not affect the degree of its CSR practices. However, previous studies on construction companies in Malaysia from 1998 to 2002 found that the relationship between CSR and LEV is positive but weak (Mohamed Zain and Janggu, 2006: 85-114) while Janggu *et al.* (2007) studies on industrial companies in Malaysia from 1998 to 2003 found that the CSR and LEV has a negative but weak relationship.

The analysis was taken further by finding the correlation coefficient between CSR and OO, while controlling for SIZE, OWN, PROF and LEV. A partial CCA was used for this purpose. The results showed a moderately strong and positive partial correlation between CSR and OWN ($r = .393$; $n = 70$; $p = .001$), with a high level of CSR practices being associated with a high degree of OO. An inspection of the zero order correlation ($r = .472$) suggested that controlling for SIZE, OWN PROF and LEV have a relatively small effect on the strength of the relationship between these two variables. Hence, the hypothesis is supported.

5.4 OLS Regression Results

Table 5 presents the results of the overall OLS model with the five predictors of OO, SIZE, OWN, PROF and LEV working well in explaining the variation in CSR. Three out of the five predictors, namely OO, SIZE and OWN were

Table 5: Ordinary Least Squares Regression results for CSR practices

Variables	Coefficients	Standard Error	Beta	t-value	Significance
Constant	-0.392	0.616		-0.637	0.526
OO	2.249	0.545	0.407	4.129	0.000
SIZE	0.464	0.203	0.236	2.284	0.026
OWN	1.168	0.382	0.315	3.056	0.003
PROF	0.243	0.648	0.039	0.375	0.709
LEV	0.861	0.618	0.146	1.393	0.169
Adjusted R Square:	0.373				
F Statistics:	9.210				
Significance:	0.000				
N:	70				

found to exert significant positive influence on CSR, while PROF and LEV showed no significant association with CSR.

The F-statistics for the model is significant at the 0.0001 level. The proportion of explained variance as measured by the adjusted R square for the above equation is 0.373. In other words, 37.3 per cent of the variation in CSR is explained by OO, SIZE and OWN. Previous analyses of CSR or CSR-related studies have shown that it is rather normal for such researches to register a low R square value. For example, Mohd Ghazali (2007: 251-266) and Brammer and Millington (2005: 29-44) obtained an R square reading of 0.27, and Wang and Coffey (1992: 771-778) and Amran *et al.* (2007: 21-30) registered an R square of 0.18 and 0.17 respectively.

The results show that the degree of OO has a strong positive relationship to the level of CSR at a t-value of 4.13. This means that the higher the percentage of foreign (sub)contracting over total sales turnover of a firm, the higher would be its level of CSR practices. The hypothesis is thus supported. In addition, the positive relationship between SIZE and the level of CSR practices is significant with a t-value of 2.28. This implies that the higher the number of employees, the higher would be the level of CSR practices in the firm. Foreign ownership and CSR is positively associated and statistically significance at t-value of 3.05. In other words, the higher the level of foreign equity in a firm, the higher would be the degree of CSR practices. In addition, the beta values given in Table 5 seemed to indicate OO (beta = 0.407) as the most important predictor of CSR, follow by OWN (beta = 0.315) and SIZE (beta = 0.236).

5.5 Regulatory Environment and CSR Capability

The seventy sample firms were asked to rank the emphasis they placed on their CSR activities. The results are presented in Table 6. It can be seen that

Table 6: Emphasis of CSR activities among the 70 sample firms (percentage)

CSR Activities	Most Important	Moderately Important	Minor Important
Process technology (PT) on environmental quality	60	37	3
Health and occupational safety	56	44	0
PT on quality of emission	49	37	14
PT harnessing employee feedback on employee safety	37	54	9
Connection and coordination with government environmental organizations such as the Ministry of Science, Technology and the Environment	8	69	23
Connection and coordination with the government human and labour organizations such as the Labour Department (Peninsular Malaysia) and Occupational Safety and Health Department	7	70	23
Connection and coordination with environmental NGOs such as CETDEM	7	60	33
Connection and coordination with trade unions	0	21	79

almost all the sample firms overwhelmingly point toward environmental and occupational health and safety problems as the key problems bedeviling their industry. Process technology on environmental quality was ranked as the most important CSR activity by 60 per cent of the respondents. This is followed by health and safety and process technology on quality of emission whereby they were ranked as the most important CSR activity by 56 per cent and 49 per cent of the respondents respectively. Another very glaring fact presented by the results in Table 6 is the generally low to moderate emphasis by the contracting firms on their coordination and connection with the government and non-government organizations. Specifically, only 8 per cent of the sample firms viewed their connection and coordination with the government environmental organizations as most important CSR activities, while the remaining 68 per cent and 23 per cent of the respondents respectively ranked it as moderately important and of minor importance. A similar outcome

was obtained when the sample firms were asked about their connection and coordination with the government human and labour organizations. Only 7 per cent of the sample firms agreed that working with the government Labour Department and Occupational Safety and Health Department are the most important CSR activities. The remaining 70 per cent and 23 per cent respectively felt that dealing with the government in the human resources area has moderate and minor importance.

In addition, the study also shows that 97 per cent of the sample firms claimed they have/had not obtained any financial support from the government in terms of CSR upgrading, while only 11 per cent claimed they have/had received some form of non-financial support from the government. About 40 per cent of the sample claimed that they had participated in the government sponsored programme, which mainly focuses on charitable sponsorship and environmental and social programmes such as school adoptions, scholarships and recycling campaigns.

In order to determine further whether the regulatory environment has a role in influencing or supporting the CSR practices of the contracting firms, a Chi-Square analysis was conducted. Respondents were asked about the level of support and assistance (both financial and non-financial) they obtained (if any) from the government and other regulatory bodies for the year 2007. The Pearson Chi Square results with p-value that exceeds alpha of 0.05 seemed to indicate an insignificant association between the local regulatory environment's role in influencing and supporting the CSR practices and the degree of CSR practices of the contracting firms, and thus supporting the hypothesis. This interpretation assumes that the market forces are the drivers of CSR and not governmental policies of national branding.

In addition, 79 per cent of the sample firms did not recognise any support from other stakeholders or third party certification, while 7 per cent claimed they obtained support from private foreign funds. In fact, the sample firms seem to be stand alone entities when taking on the CSR agenda.

6. Conclusions

The present study of a sample of seventy (70) Malaysian companies in the E&E industry highlights that there is a connection between OO transactions, the emerging governmental agenda of CSR and the reception, strategizing and institutionalization of CSR in Malaysian management and organization. The statistical results using CCA and OLS regression confirm the hypothesis that the relationship between CSR and OO is positive. This implies that the higher the level of OO, the higher will be the degree of CSR practices. This finding is in tandem with the resource-dependence theory that states that a firm needs to reply to the demand of those in its environment that provide

resources necessary for its continued survival. Thus in the OO relationship, the ability of the lead firm to withdraw the OO contract gives them power over the contracting firm. The lead firm uses this power to advocate responsible corporate behaviour, and the contracting firm responds to the lead firm through compliance with CSR codes of conduct and other CSR activities. In addition, the study also concludes that employee size and foreign ownership have a significant and positive association with CSR. In other words, the larger the size of employees a firm has and the higher the proportion of foreign equity in a firm, the more likely the firm will increase its CSR practices. These findings underscore the premise that factors contributing to the degree of CSR practices of the firms are not exclusively limited to traditional shareholders/owners interest but require consideration and communication of a broader scope of stakeholders as indicated by the stakeholder theory. Other findings with respect to profitability and leverage show that these two variables do not have influence on CSR levels. This means that the degree of profit and leverage of a firm do not affect its CSR practices.

In addition, most of the sample firms demonstrate a surprising confidence in their own capabilities to handle customers' CSR demands. This confidence seems to spring from the firms' conception that their CSR challenges are rather simple issues and are not complex and urgent problems, sustained by the rather weak pressure for CSR upgrading from customers and consumers in Malaysia. There is also insufficient emphasis by the contracting firms on CSR practices relating to labour practices, as compared to environmental sustainability and occupational health and safety issues in the operation.

Overall, the CSR agenda has gained a certain momentum sustained by the Malaysian government and related institutions, as well as by companies, and also adopted by individual firms based on considerations regarding cost reduction, investments in quality management, human resource development and product and corporate branding. Yet, the overall positive self evaluation of Malaysian firms contrasts with the ranking and participation of Malaysian firms in international indexes and CSR contests. For example, no fully owned Malaysian manufacturing corporation participates in the UN Global Compact (UNGC) forum. UNGC integrates core international principles of human rights, labour rights, environmental principles and business ethics. One of the challenges posed by the UNGC has been the insistence on core labour rights, which Malaysia has not complied with (the covenant on freedom of association) due to especially Northern and US electronics transnational companies anti union policy in Malaysia (Wad, 1997).

Thus, the articulation of CSR in Malaysia seems to adopt a version which is not taking the agenda very far behind and beyond contemporary legislation. This is probably due to, firstly, the government and state agencies pursuing primarily an endorsing and facilitating role targeting the GLC corporations

and not a more comprehensive partnering or mandating role; secondly, the overall weaknesses of civil society groups and organizations in Malaysia; and thirdly, the lack of a free press. Moving ahead, if the contracting firms want to compete successfully for OO contracts, the rhetoric and strategizing must translate into CSR business practices and performance. This is because they will face other markets and probably also more vigilante consumers and NGOs, that will mobilize concerned media and insist on a high level of CSR practices in a more civil society supportive environment.

Based on the above findings, the authors of this study hope that the information would be of relevance to the government and other regulatory bodies responsible for promoting CSR among the Malaysian firms. There should be closer cooperation between the government agencies, NGOs, the media, the E&E firms, professional bodies and the public for implementation of CSR standards, dissemination of information and the inculcation of CSR attitudes throughout the society. Perhaps, the government agencies can formulate more comprehensive incentive programmes to attract the firms to set aside funds for CSR initiatives.

The present study is not without limitations. Firstly, the data collected from both primary and secondary sources may not give a complete picture of the CSR practices in Malaysia. Such data may picture the subjective world of the respondents that inform their operational and strategic thinking and decisions, and thus, may not articulate a more complex and diverse understanding of the company situation and change; also the data may not disclose the actual CSR practices beyond the endorsement of particular standards or directives. Secondly, measuring CSR using content analysis method may be subjected to human error as it involves the exercise of judgment as to what constitute CSR information. Thirdly, this study focuses solely on E&E firms in Malaysia. Thus the conclusions derived may not be applicable to other industries. Fourthly, the study employed purposeful sampling whereby the sample was selected based on the judgment of the researchers about the appropriate characteristics required of the sample firms; thus, this might make the sample less than fully representative.

Nevertheless, it is the only study thus far which presents an up-to-date overview of CSR among the E&E firms in Malaysia that engage in foreign (sub)contracting activities. It has also extended previous CSR research to cover a new variable – the degree of offshore outsourcing.

The research should be extended into other industries that have foreign (sub)contracting activities in order to provide a more accurate picture about the CSR practices of the offshore outsourcing firms in Malaysia. Studies should also consider extending the number of years chosen for the study to at least three years, so that the dynamic interplay between OO activities and CSR practices of Malaysian firms could be meaningfully analyzed for their

causal direction and thereby questioning whether a reverse relationship exists in Malaysia, that is whether CSR practices contribute to firm competitiveness and profitability.

Notes

1. Corresponding author.
2. In 2006, Ford Malaysia also appeared among the UN Global Compact participants in Malaysia. In 2007, a new Malaysian service company entered the list, Shah Educational Systems Sdn Bhd.

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