

**CORPORATE SOCIAL RESPONSIBILITY (CSR) IN A DEVELOPING  
COUNTRY: AN ANALYSIS OF PUBLIC-LISTED CORPORATIONS IN  
MALAYSIA**

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## Dedication

This thesis is dedicated to my husband, Mohd Aqi Mohd Azmi, my sons, Luqman Haziq and Luqman Aqmar, my beloved mother, Sauyah Mahamed and my late father, Ahmad Din.

## Abstract

This study examines the nature and extent of CSR practices in Malaysia, a developing country located in the South-East Asia. The cause for concern highlighted in a number of studies in the field of CSR is centred on the unparalleled economic, social and political power that corporations possess in a contemporary economic environment. It has been argued that corporate large-scale operations pose considerable challenges to existing domestic and international governance institutions. In response to various pressures from civil society groups and NGOs, corporations espouse CSR commitment by producing codes of conduct and increasingly report its CSR engagement. Nevertheless, the present form of modern corporations, anchored by the 'ideology' of economic and legal views of the corporation offer limited insight into the practice of CSR.

It has been argued that developing countries' institutional structures are often devised to increase capital mobility and pressure to attract foreign investment in order to foster social and economic growth. This may influence the development of institutional structures for promoting social responsibility and public accountability and indeed shape social relations in a capitalist society. In the case of Malaysia, it can be observed that the powerful social elite set the agenda for maintaining social cohesion, mobilising *Bumiputera* hegemony in the process of capital accumulation and suppressing concerns about the tensions between capitalism and socio-economic and environmental concerns. In this context, CSR provided corporate managers and political elites with a tool, used to maintain the status quo and masked conflicting interests under the notion of 'corporate social responsibility'.

The analysis of several reports and documents of public-listed corporations in Malaysia showed gaps in the knowledge of CSR discourse and how it can be 'operationalised' in the best interest of the public at large. The review of documented evidence also indicated the gap between corporate pledges of CSR and what actually happened in practices.

## TABLE OF CONTENTS

<b>CHAPTER ONE</b> .....	1
<b>INTRODUCTION TO THE THESIS</b> .....	1
1.0 Introduction.....	1
1.1 The Growth of Corporations.....	4
1.2 Corporate Social Responsibility: Anything New?.....	6
1.3 The Case for Studying CSR in Malaysia.....	9
1.3.1 Broadening the Notion of Governance: CSR as a Way Forward?.....	14
1.4 Aims of the Research and Research Questions.....	16
1.5 The Research Methodology.....	17
1.6 Summary of the Findings and Limitation of the Research.....	19
1.7 The Structure of the Thesis.....	22
1.8 Summary and Discussion of the Chapter.....	25
<b>CHAPTER TWO</b> .....	26
<b>A REVIEW OF THE LITERATURE</b> .....	26
2.0 Introduction.....	26
2.1 The Modern Corporation and CSR.....	28
2.1.1 Corporation as an Artificial Entity.....	29
2.1.2 Corporation as a Real Entity.....	30
2.1.3 Corporation as a Nexus of Contracts.....	31
2.2 Understanding Corporate Social Responsibility (CSR).....	33
2.2.1 The Development of CSR.....	37
2.2.2 Corporate Social Responsibility Issues.....	43
2.3 Theoretical Perspective of CSR.....	57
2.3.1 Agency Theory.....	59
2.3.2 Stakeholder Theory.....	61
2.3.3 Legitimacy Theory.....	64
2.3.4 Political Economy Theory.....	66
2.4 CSR Practices in Developing Countries.....	68
2.4.1 CSR in Asian Countries.....	70
2.4.2 CSR in Malaysia.....	72
2.5 Summary and Conclusion.....	79

<b>CHAPTER THREE</b> .....	83
<b>METHODOLOGICAL FRAMEWORKS</b> .....	83
3.0 Introduction.....	83
3.1 Varieties of Methodological Frameworks.....	85
3.1.1 Methodology in Perspective.....	88
3.2 Social Constructionist Perspective .....	90
3.2.1 The Political Economy Theory .....	94
3.2.2 The Developmental State .....	99
3.2.3 Globalisation and Global Capitalism .....	104
3.2.4 A Connective Summary .....	111
3.3 Research Design and Methods.....	115
3.3.1 Data Collection .....	115
3.3.2 Data Analysis .....	124
3.4 Summary and Conclusion .....	127
<b>CHAPTER FOUR</b> .....	129
<b>THE SOCIO-ECONOMIC AND POLITICAL CONTEXT OF MALAYSIA</b> .....	129
4.0 Introduction .....	129
4.1 The Historical Review of Malaysia .....	132
4.1.1 The Colonial Era (1786 – 1957): The Roots of Conflict.....	134
4.2 From British to <i>Bumiputera</i> Rule (1957 – 1970) .....	136
4.2.1 The <i>Bumiputera</i> Resurgence (1960's).....	137
4.2.2 Developing Common Sense: Instilling <i>Bumiputera</i> Hegemony .....	139
4.2.3 Transition in the Political Leadership and the State .....	140
4.3 The Development of <i>Bumiputera</i> Policy (1971 – 2000) .....	142
4.3.1 The Asian Financial Crisis 1997/1998.....	154
4.3.2 Liberalisation and the Threat to the National Autonomy.....	156
4.3.3 The Outcome of <i>Bumiputera</i> Policy .....	160
4.4 The <i>Bumiputera</i> Policy in the Era of Globalised World (2001 – 2010) .....	162
4.5 The Legal and Regulatory Framework in Malaysia.....	165
4.5.1 Power in Shaping Regulations: Improving Governance Framework .....	172
4.5.2 Corporate Social Responsibility Initiatives in Malaysia.....	183
4.5.3 Discussion .....	186
4.6 The Civil Society and Media in Malaysia .....	189
4.6.1 The Civil Society .....	190
4.6.2 The Media .....	191

4.7	Summary and Conclusion .....	193
<b>CHAPTER FIVE.....</b>		<b>197</b>
<b>CORPORATE SOCIAL RESPONSIBILITY – THE VIEWS FROM CORPORATIONS.</b>		<b>197</b>
5.0	Introduction .....	197
5.1	The Influence of <i>Bumiputera</i> Policy on Social Mechanisms .....	200
5.1.1	Telekom Malaysia Berhad (TM).....	200
5.1.2	IOI Corporation Berhad (IOI) .....	204
5.1.3	British American Tobacco Malaysia (BAT).....	206
5.1.4	Discussion.....	209
5.2	Environmental Responsibility .....	212
5.2.1	Telekom Malaysia Berhad .....	213
5.2.2	IOI Corporation Berhad.....	216
5.2.3	British American Tobacco Malaysia (BAT).....	220
5.2.4	Discussion on Environmental Responsibility.....	222
5.3	Employee Welfare and Management .....	224
5.3.1	Telekom Malaysia Berhad .....	224
5.3.2	IOI Corporation.....	229
5.3.3	British American Tobacco Malaysia .....	231
5.3.4	Discussion on Employee Welfare and Management.....	234
5.4	Community Involvement and Development.....	236
5.4.1	Telekom Malaysia Berhad .....	236
5.4.2	IOI Corporation.....	240
5.4.3	British American Tobacco Malaysia .....	242
5.4.4	Discussion on Community Involvement and Development.....	245
5.5	Responsibilities to the State .....	247
5.5.1	Telekom Malaysia Berhad .....	247
5.5.2	IOI Corporation.....	250
5.5.3	British American Tobacco Malaysia .....	250
5.5.4	Discussion on the Responsibility to the State .....	253
5.6	Understanding Corporate Role in the Society .....	253
5.6.1	Business Case and Profit-Making Shape CSR Understanding .....	254
5.6.2	Framing CSR within the Stakeholder Framework .....	256
5.6.3	Discussion: The Role of Corporations in a Society .....	257
5.7	Summary and Conclusion .....	258

<b>CHAPTER SIX</b> .....	263
<b>CORPORATE SOCIAL RESPONSIBILITY – THE VIEWS FROM STAKEHOLDERS</b>	263
6.0 Introduction.....	263
6.1 Understanding CSR.....	265
6.1.1 Ambiguity in Defining CSR.....	265
6.1.1.1 Discussion.....	270
6.1.2 CSR as a Public-Relation Exercise?.....	272
6.2 The Influence of Local and Global Framework on CSR.....	274
6.2.1 The Local Context.....	274
6.2.2 The Global Context.....	279
6.3 The View of Stakeholder on CSR-Related Initiatives.....	281
6.3.1 Environmental Protection and Management.....	281
6.3.2 Employee Welfare and Management.....	285
6.3.3 Community Involvement and Development.....	292
6.3.4 Responsibility to the State.....	293
6.4 Summary and Conclusion.....	296
<b>CHAPTER SEVEN</b> .....	300
<b>SUMMARY AND CONCLUSION</b> .....	300
7.0 Introduction.....	300
7.1 Reflections on CSR in Malaysia.....	301
7.2 Contribution of the Thesis.....	305
7.3 Limitations of the Study and Suggested Areas for Further Research.....	307
7.4 Implications and Possible Reforms.....	308
7.5 Conclusion.....	309
<b>APPENDICES</b> .....	312
<b>REFERENCES</b> .....	337



## List of Tables

Table 2.1: The Meaning of CSR.....	35
Table 2.2: The Historical Development of Business and Society Relationships.....	38
Table 2.3: CSR Studies in Malaysia .....	76
Table 3.1: The List of Groups Interviewed.....	117
Table 3.2: Secondary Information and Sources of Information .....	119
Table 4.1: Transparency International Corruption Perceptions Index for Malaysia .....	156
Table 4.2: GDP Growths in Malaysia, 1970-2010.....	161
Table 4.3: Percentage of Ownership of Share Capital, 1969 – 2004 .....	162
Table 5.1: Composition of TM’s Board Members.....	203
Table 5.2: Composition of IOI’s Board Members .....	205
Table 5.3: Composition of BAT’s Board Members .....	207
Table 5.4: TM’s Environmental Responsibility .....	215
Table 5.5: IOI’s Environmental Protection and Management.....	218
Table 5.6: BAT’s Environmental Protection and Management.....	221
Table 5.7: TM’s Employee Welfare and Management .....	225
Table 5.8: IOI’s Employee Welfare and Management .....	230
Table 5.9: BAT’s Employee Welfare and Management .....	233
Table 5.10: Occurrence of Road and Industrial Accidents .....	234
Table 5.11: TM’s Community Involvement and Development.....	239
Table 5.12: IOI’s Community Involvement and Development .....	241
Table 5.13: BAT’s Community Involvement and Development .....	244
Table 5.14: Supporting the State’s Initiatives at TM .....	249
Table 5.15: Supporting the State’s Initiatives at BAT.....	252
Table 5.16: Summary of CSR Initiatives.....	261
Table 6.1: Stakeholder Understanding of CSR.....	267

## List of Figures

Figure 2.1: Structure of Chapter 2.....	28
Figure 2.2: Carroll’s Dimension of Responsibility .....	44
Figure 2.3: CSR Pillars and Initiatives .....	46
Figure 2.4: Humanity’s Ecological Footprint, 1961-2006 .....	48
Figure 2.5: Humanity’s Ecological Footprint by country, 1961 – 2006 .....	48
Figure 2.6: Theories Commonly Adopted in the CSR Literature .....	58
Figure 2.7: Visser’s Framework for Understanding CSR in Developing Countries.....	69
Figure 3.1: Structure of Chapter 3.....	85
Figure 3.2: The Structure and Agency Framework and CSR.....	94
Figure 3.3: Cox’s Formulation of the Historical Structures.....	98
Figure 3.4: The Theoretical Approach .....	114
Figure 4.1: Structure of Chapter 4.....	132
Figure 4.2: The Development of <i>Bumiputera</i> Hegemony and Policy.....	144
Figure 4.3: The Structure of Government-Linked Companies (GLCs) .....	152
Figure 4.4: Foreign Direct Investment Flows to Malaysia, 1970-2010 .....	158
Figure 4.5: The Regulatory Framework in Malaysia .....	167
Figure 4.6: The Bursa Malaysia CSR Framework .....	176
Figure 4.7: The Business Council Sustainability Focus .....	183
Figure 4.8: The Development of CSR in Malaysia.....	188
Figure 5.1: Structure of Chapter 5.....	199
Figure 5.2: IOI’s Corporate Responsibility .....	206
Figure 5.3: British American Tobacco Malaysia Sustainability Framework .....	209
Figure 6.1: Structure of Chapter 6.....	264
Figure 6.2: Revenues Collection .....	294
Figure 6.3: Number of Tax Audit Resolved.....	296
Figure 7.1: Structure of Chapter 7.....	301

## List of Appendices

Appendix 1-1: Incidence of Poverty by Ethnicity, 1970-2009.....	312
Appendix 1-2: Gini Coefficient by Ethnicity, 1970-2009.....	313
Appendix 1-3: CSR initiatives in the 2007-2013 Budget Reports.....	314
Appendix 1-4: Example of Tax Incentives in CSR-Related Activities.....	319
Appendix 2-A1: The brief history of TM.....	320
Appendix 2-A2: Awards and Recognitions for TM's CSR Initiatives.....	322
Appendix 2-B1: The IOI Corporation.....	323
Appendix 2-B2: The Grim Reality of IOI's CSR Practices in Sarawak.....	324
Appendix 2-B3: The Grim Reality of IOI's CSR Practices in Indonesia.....	325
Appendix 3-1: Interview Guide.....	326

### **List of Abbreviations**

ACCA Malaysia	– Malaysian Association of Chartered Certified Accountants
BAT	– British American Tobacco Malaysia
Bursa	– Bursa Malaysia
CO <sub>2</sub>	– Carbon Dioxide
CPI	– Transparency International's Corruption Perceptions Index
CSP	– Corporate Social Performance
CSR	- Corporate Social Responsibility
CUEPACS	– Congress of Unions of Employees in the Public and Civil Services
DOE	– Department of Environment
DOSH	– Department of Occupational Safety and Health
EIA	– Environmental Impact Assessment
EPF	– Employees Provident Fund
EPU	– Economic Planning Unit
FDI	– Foreign Direct Investment
FIC	– Foreign Investment Committee
GDP	– Gross Domestic Product
GEMs	– Graduate Employability Management Scheme
GHG	– Greenhouse Gas Emissions
GLCs	– Government-linked Companies
GLICs	– Government-linked Investment Companies
HSBB	– High-Speed Broadband
HUMANA	– Humana Child Aid Society Sabah
ICA	– Industrial Coordination Act
ILO	– International Labour Organization
IOI	- IOI Corporation Berhad
ISCC	– International Standard for Carbon Certification
Khazanah	– Khazanah Nasional Berhad
KLCI	– Kuala Lumpur Composite Index
KWAP	– Retirement Fund (Incorporated)
LTAT	– Armed Forces Fund Board
LTH	– Hajj Pilgrims Fund Board
MACC	– Malaysian Anti-Corruption Commission
MASB	– Malaysian Accounting Standards Board
MCMC	– Malaysian Communications and Multimedia Commission
MIA	– Malaysian Institute of Accountants
MICPA	– Malaysian Institute of Certified Public Accountants

MIDA – Malaysian Industrial Development Authority  
MIM – Malaysian Institute of Management  
MPOC – Malaysian Palm Oil Council  
MTUC – Malaysian Trade Union Congress  
MeSRA – Malaysia Environmental and Social Reporting Awards  
MoF – Ministry of Finance  
NACRA – National Annual Corporate Report Awards  
NDP – National Development Policy  
NEAC – National Economic Action Council  
NEP – National Economic Policy  
NEM – New Economic Model  
NGOs – Non-Governmental organizations  
NVS – National Vision Policy  
PCG – Putrajaya Committee on GLC High Performance  
PINTAR – Promoting Intelligence, Nurturing Talent and Advocating Responsibility  
PNB – National Equity Corporation  
RSPO – Roundtable for Sustainable Palm Oil  
SC – Security Commission  
SOCISO - Social Security Organization  
SRSG – Special Representative of the Secretary-General  
SUHAKAM – Human Rights Commission of Malaysia  
TM – Telekom Malaysia Berhad  
UN – United Nations  
UNCTAD – United Nations Conference on Trade and Development  
UNICEF – United Nations Children’s Fund  
USP – Universal Service Provision

## CHAPTER ONE

### INTRODUCTION TO THE THESIS

#### 1.0 Introduction

Corporate social responsibility (CSR) has gained broad public attention, partly generated by civil society and democratic movements, environmentalism, anti-globalisation, shareholder activism, tax justice and major corporate accounting scandals (see Banerjee, 2007; Demirag, 2005; Desai and Dharmapala, 2006; Detomasi, 2008; Frederick, 2006; Greenfield, 2004; Jenkins, 2005; Sikka, 2010; Vogel, 2005). The heightened interest in CSR could be explained in terms of the changing public attitudes regarding the role of corporations in a modern society, hence accelerating demands towards upholding corporations accountable and socially responsible for their corporate conduct (Bakan, 2005). In addition, the collapse and financial scandals of major corporations in the West<sup>1</sup> and the socio-economic and environmental crises<sup>2</sup> have raised further questions about the regulatory mechanisms, the complexity of relationships between markets, states and civil society and the impacts of corporate global operations.

Whilst the proliferation of CSR mostly concentrates on Western philosophies and values (Adams and Harte, 1998; Brown and Deegan, 1998; Deegan and Gordon, 1996; Deegan *et al.*, 2000, 2002; Gray *et al.*, 1995; Guthrie and Parker, 1990; Holder-Webb *et al.*, 2009; Lindgreen *et al.*, 2009; O'Donovan, 2002), little attention has been paid to the national institutional context of developing countries. Due to this limitation, studies on developing countries tend to replicate Western studies, but their relevance to capture the complexity

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<sup>1</sup> The collapse and financial scandals of larger corporations and bank (such as Enron, WorldCom and Parmalat in the 2000s, the Bank of Credit and Commerce International – BCCI) and the involvement of accounting professional (such as Arthur Andersen) have attracted public mistrust on unregulated corporate behaviour and power.

<sup>2</sup> The increased exposures of social and environmental impacts of larger corporations like Nike suppliers' labour practices in South Asia, human rights violations by Shell in Nigeria and industrial incidents such as Exxon Valdez oil spills in Alaska and Union Carbide Bhopal disaster in India have drawn attention to the accountability, responsibility and governance mechanisms.

of developing countries remains problematic (Bakre, 2005).<sup>3</sup> Critics argue that social practice such as CSR is embedded in the complexity of human relations and is shaped by the dynamic interrelations between socio-economic, political environment and social actors in a particular society, which simultaneously impacted upon the demands for CSR (see Johnston, 2005; Miller, 1994).

Therefore, it is important for developing countries to consider whether the Western values of CSR are relevant to their particular socio-economic and political environment. This limitation highlights the need to understand CSR from the perspective of a developing country and its relation to society, economy and polity. Prieto-Carrón *et al.* (2006: 986) argue;

*“There is a pressing and persistent need for a critical investigation of the potential and limitations of CSR initiatives in developing countries. There exists at present a rather one-sided view of CSR that emphasizes profit-making, win-win situations and consensus outcomes in multi-stakeholder arrangements. This ignores more sensitive questions around the actual impacts of CSR initiatives, the roles of power, class and gender in mediating such interventions, and the need to go beyond ‘one size fits all’ approaches towards a contextualized understanding of what CSR can and does mean for poor and marginalized groups in the global South.”*

This study addresses the gap in the CSR literature by conducting a broader contextual analysis within the socio-economic and political context of Malaysia to understand how CSR is influenced and shaped by the larger institutional environment in which it is embedded. The dynamic interrelations between state, society and social forces would shape the demand and production of CSR in Malaysia. Previous studies on CSR in Malaysia are mostly based on the functionalist approach and are focused on disclosure, perception and cause-benefit of CSR engagement (see Teoh and Tong, 1984; Thompson and Zarina, 2004). However, little attention has been paid to the historical context, which considerably influenced the nation-building after independence; among

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<sup>3</sup> It has been argued that the differences in the socio-economics, politics, culture and moral judgment and the alternative roles that corporations play in a given society presents considerable challenges in CSR discourse, particularly in the case of developing countries (Golob and Bartlett, 2007; Jones, 1999; Tsang, 1998).

the most notable is the *Bumiputera*<sup>4</sup> policy that heavily influenced the country's governance mechanism.

Malaysia is a developing country located in South-East Asia, which gained independence from Britain in 1957. It inherited the British systems of corporate law, accounting and governance practices, but these have since been hybridised by developments over the decades, and are overwhelmingly characterised by Malaysian social, economic and political life. The socio-economic and political landscape of Malaysia is organised around a complex amalgam of racial and economic goals, much influenced by the colonial 'divide-and-rule' political system.<sup>5</sup> The growth of the economy is currently largely dependent on domestic-led growth and foreign investments (Malaysia Fiscal Transparency: Country Report 2006). In order to remain competitive, the state has offered investment incentive packages to attract foreign investment. However, the intensification of globalisation and the reliance on foreign investment to stimulate socio-economic growth poses considerable challenges to the state autonomy to develop institutional structures crucial for promoting responsible practices (see Bakan, 2005; Korten, 2001; Mitchell and Sikka, 2005). As the national policies are often subordinated to enhance the mobility of capital, this has created a 'governance gap' (a regulatory vacuum) (see Bakan, 2005). Hence, similar to other countries, Malaysia faces contradictions and complexities as the country's institutional structures need to balance the competing demands of capitalists and societal welfare (see Sikka, 2010).

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<sup>4</sup> Bumiputera refers to the "sons or princes of the soil" who have been recognized by the British colonial rulers and the Malaysian Federal Constitution as the rightful rulers of the country (Torii, 1997: 213). The special privileges of Bumiputera are protected by the parliamentary system and by the Conference of Rulers. These are based on Article 153 and Article 89 (concerning land ownership) of the Federal Constitution. Any changes in the policy which affect Articles 153 need to be consulted by the Conference of Rulers. Therefore, any revision to the Article could not be made merely by parliamentary procedure, but through approval by the Conference of Rulers (Horii, 1991).

<sup>5</sup> The national context will be defined further in the following section and detailed discussion on the socio-economic and political environment can be found in Chapter 4.



## 1.1 The Growth of Corporations

The cause for concern highlighted in a number of studies in the field of CSR is centred on the unparalleled economic, social and political power that corporations possess in a contemporary economic environment (see Bakan, 2005; Banerjee, 2008; Stiglitz, 2002).<sup>6</sup> This can partly explained by the growing concern from civil society and non-governmental organisations, environmentalism movements, the academia and the media who has problematized the increased power of corporations and the consequences of this power on larger society and environmental wellbeing (see Bakan, 2005; Korten, 2001). Critics argue that modern corporations have grown tremendously in size, assets and revenues, thus making them important actors in the global economy (Demirag, 2005; Korten, 2001). In fact, the total revenues of the largest corporations such as Exxon Mobil, Wal-Mart Stores or Royal Dutch/Shell Group exceeds the revenues of many countries, especially developing countries.<sup>7</sup> According to the statistics, 500 corporations (which are mostly headquartered in developed countries) control 70% of world market and 80% of foreign investment (Korten, 2001).

The growth of modern corporations is facilitated by economic globalisation which has intensified the expansion of corporations across the globe. Within the dynamics of global capitalism and neoliberal agenda, corporations roam the world to save costs and generate economic surpluses for the shareholders (see Bakan, 2005). According to the statistics, there are about 64,000 corporations with more than 866,000 affiliates including subsidiaries, and millions of suppliers and distributors connected through the global value-chains (UNCTAD, 2004). Nonetheless, the process of economic globalisation has been abetted and aided by the role of the state which has been a major sponsor of

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<sup>6</sup> As an interdisciplinary discourse, CSR has been researched within various disciplines such as accounting and management, finance, marketing and sociology (Visser, 2006).

<sup>7</sup> The world largest corporations is measured by revenue (Source: Fortune Magazine, Feb 20, 2007) and countries revenues is measured by GDP (Source: World Development Indicators database, World Bank, Feb 20, 2007).

corporations. A number of scholars argue that corporations are a 'social invention' of the state (see Bakan, 2005), meant to generate specific public functions. By virtue of state law, a modern corporation is formed to freely accumulate capital. To increase the mobility of capital, the state removes exchange contracts, dismantles trading barriers and executes mechanisms of deregulation, privatisation and liberalisation, thereby safeguarding the continuous supply of capital to finance public goods and maintain social order.<sup>8</sup>

However, whilst corporations are growing larger, crossing national territories and becoming increasingly influential, they also attract mistrust and fear amongst the general public concerning their accountability, responsibility and governance towards the system in which they are embedded (Stiglitz, 2002). It has been argued that corporate large-scale operations pose considerable challenges to existing domestic and international governance institutions<sup>9</sup> (Detomasi, 2008). Deetz (1992: 2) argues;

*"The modern corporation has emerged as the central form of working relations and as the dominant institution in society. In achieving dominance, the commercial corporation has eclipsed the state, family, residential community and moral community. This shadowing has hidden or suppressed important historical conflicts among competing institutional demands. Corporate practices pervade modern life by providing personal identity, structuring time and experience, influencing education and knowledge production and directing entertainment and news production".*

In this context, critics have challenged the economic imperatives of corporate globalisation as it threatened the global governance mechanisms that are supposedly managing it (Jenkins, 2005; Korten, 2001). The cause for concern is brought about by the possibility of corporations to engage in 'regulatory arbitrage' and to relocate their activity to a country with favourable conditions such as cheaper labour, favourable

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<sup>8</sup> In this context, it could be argued that the state supports the interests of capital because of its dependency on corporate tax revenue, employment and investment (Garvey and Newell, 2004).

<sup>9</sup> It has been argued that almost every activity a business undertakes has an impact in some way on communities' lives and livelihoods, whether through employment practices, supply chains, product safety, marketing practices or through their impact on the environment (see Bakan, 2005; Korten 2001; Vogel, 2005).

regulatory policies, financial and tax incentives and low tax jurisdictions to maximise profit (see Bakan, 2005; Detomasi, 2008; Smith, 2008). Whilst corporate managers enjoy considerable autonomy in appropriating economic surpluses for the shareholders, their discretion to pursue social goals are constrained by the economic rationality (see Sikka, 2010). The quest for profit often brings corporations into conflict with the local communities, employees, environmentalists and the host government (Korten, 2001; Sikka, 2010).<sup>10</sup>

Therefore, in recognising the dominant power of corporations in structuring the economy, politics and society, a number of scholars argue that CSR *“may provide a general framework to structure the responsible use of corporate power and social involvement”* (Turker, 2008: 1). CSR becomes an alternative form of governance to ensure responsible conduct in corporate performance. However, making corporations socially responsible and accountable remains a major issue in many societies (see Mitchell and Sikka, 2005). This is because the concept of CSR is broader than simply complying with laws and regulations but entails other competing issues such as accountability, ethics, morality and human rights (see Sikka, 2010).

## **1.2 Corporate Social Responsibility: Anything New?**

Research has noted that the interest in CSR discourse over the years is varied and often in direct response to emerging social and environmental pressures (Campbell, 2000; Guthrie and Parker, 1989). In this context, critics observed that CSR has emerged as a *‘fashion statement’* which changes over time (Gray *et al.*, 1996: 123) and has been used as *‘key branding themes’* to describe corporate commitments and initiatives towards

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<sup>10</sup>The pursuit of wealth maximisation undermines public policies and weakens regulatory mechanisms, which has contributed to major environmental degradation, suppression of human rights (child and sweatshop labour), violation of employment standards (working conditions, wage inequality, gender pay gap) and social injustice (violence, pollution, poverty) (Bakan, 2005; Vogel, 2005).

CSR (Bakan, 2005). Despite growing interest in the field of CSR, literature remains in relative dispute about the meaning and nature of CSR<sup>11</sup> or where the boundaries of CSR lie<sup>12</sup> (Blowfield and Murray 2008; Capron and Gray, 2000; Porritt, 2005). Gray *et al.* (1995: 47) note that; “*CSR is not enriched in any legislation equivalent to Companies Acts; as a result, it is neither practiced systematically by organizations nor able to claim either universal recognition or universal definition.*”

CSR is informed by competing theoretical perspectives, assumptions about the nature of corporations, dynamics of society and assumed responsibilities of a corporation (see Banerjee, 2008; Campbell, 2007; Gray *et al.*, 1995; Guthrie and Parker, 1990; Scherer and Palazzo, 2007).<sup>13</sup> However, critics argue that CSR research is dominated by an economic view of corporation and an instrumental view of CSR projects (Scherer and Palazzo, 2008). Anchored from neoliberal ideology, the agency theory for instance, emphasised on the economic and legal responsibilities that corporations owe to the shareholders. The debate however, has expanded and proposed the stakeholder-orientated concept based on the premise that business and society are interdependent (Donaldson and Preston, 1995; Gray *et al.*, 1995).

In common with other socially constructed practices, CSR presents considerable challenges as the nature of social and environmental responsibilities is broader than simple compliance with laws. The debate on the field of CSR is not generally focused on the role of corporation in fostering economic and social development, but has been

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<sup>11</sup> Scholars argue that difficulty in articulating CSR construct has been rooted on the premise of capitalism as institutions are not designed for social benign purposes except for continuing pursuit of growth and profit (Capron and Gray, 2000).

<sup>12</sup> Chapple and Moon (2005) argue that defining CSR has become problematic as there are various cases of CSR are being made (McWilliams and Siegel, 2001; Porter and Kramer, 2006), the role played by government in deploying incentives for CSR (Moon, 2004) and compliance of various global jurisdiction and law (Sharfman *et al.*, 2004). Due to unresolved issues pertaining to ‘operational definition’ of CSR, scholars argue that concept has remained vague and ambiguous (Makower, 1994: 12).

<sup>13</sup> To understand the nature of corporation and contradictions inherent in the social, economic and political framework within which it operate, please refer to Chapter 2 for a detailed discussion.

broadened to include, for instance, community relations (Campbell *et al.*, 2006; Newell, 2005; Parker, 2005), environmental issues (Deegan *et al.*, 2002; Gray, 2002), employee welfare (Blowfield, 2006; Sikka, 2008; Yakovleva, 2005), taxation (Christensen and Murphy, 2004; Desai and Dharmapala, 2006; Sikka, 2010) and poverty alleviation (Prieto-Carrón *et al.*, 2006). The broad interpretation on the scope of CSR leaves considerable room for discussion and interpretation about the role of corporations in a modern society.

To compound such complexity, the changing and globalising business environment has transformed the context for CSR particularly multinational corporations (MNCs), whose activities transcending national borders. Corporations are expected to protect the environment, support and contribute to the communities in which they operate, treat their employees with respect, responsibility to the state and contribute to sustainable development. Nevertheless, the corporate pursuit of profits builds upon the neoliberal concept of a division between political and economic domains often overlook the conflicts and antagonisms inherent in a contemporary global capitalism which may constrain responsible business practices.

The above discussion accentuates that CSR is a complex concept, encompassing an ever-widening range of issues. In a view of this, this study adopted a broader definition of CSR postulated by Blowfield and Frynas (2005: 503) as;<sup>14</sup>

*“An umbrella term for a variety of theories and practices all of which recognize the following: (a) that companies have a responsibility for their impact on society and the natural environment, sometimes beyond legal compliance and the liability of individuals; (b) that companies have a responsibility for the behaviour of others with whom they do business (e.g. within supply chains); and (c) that business needs to manage its relationship with wider society, whether for reasons of commercial viability or to add value to society”.*

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<sup>14</sup> For a detailed discussion on what constitutes CSR, please refer to Chapter 2, in which the study has encapsulated competing view of CSR into three perspectives based on the nature of the corporation: corporation as an artificial entity, corporation as a real entity and corporation as a nexus of contract. The chapter also highlighted that the social, economic and political changes over the years has transformed corporation into its 'modern form', which have simultaneously aided (or obstructed) the demand for CSR.

The complexity and dynamics of CSR in different socio-economic and political environments provide an opportunity to understand how CSR has been socially constructed and rationalised as institutionalised practices, particularly in the case of developing countries. Since practices are socially constructed, the meaning ascribed to CSR and a series of practices may change over time for particular contexts, exemplifying how social actors describe, explain or account for environmental and social issues. Besides, CSR is seen as a 'cluster concept' which overlaps with other similar or related terms, including corporate responsibility, corporate philanthropy, corporate citizenship, business ethics, sustainable development, stakeholder management, community involvement, corporate social performance and triple-bottom line (Matten and Moon, 2004). Therefore, it is appropriate to define CSR as an overarching term – considering CSR as an *umbrella term* which recognise the responsible role of corporation towards a larger system in which it is embedded.

For the purposes of this study, CSR is conceptualised as referring to how corporations behave in a responsible manner relative to their: (1) *community* (e.g. educational and healthcare support, sponsorship, charitable contributions); (2) *environment* (e.g. environmental protection and management, waste and resources management); (3) *employee* (e.g. occupational health and safety, compensation and benefits, decent wages, non-discrimination); and (4) the *state* (e.g. tax payment, promoting local procurements, anti-corruption). In order to understand CSR practices and its potentiality, the study should not only consider corporate views on CSR but also incorporate stakeholders' view on CSR. The case for studying CSR in Malaysia is considered next.

### **1.3 The Case for Studying CSR in Malaysia**

Located in the very heart of South-East Asia, Malaysia (see figure 1.1) is a country of two land masses – Peninsular Malaysia and Malaysia Borneo which is 640km apart,

separated by the South China Sea. Malaysia comprises of 14 states – eleven states in the Peninsular Malaysia, two states of Sabah and Sarawak on the northern coast of the island of Borneo and the federal territories (the capital city of Kuala Lumpur, the administrative centre in Putrajaya and the island of Labuan, which collectively form the 14<sup>th</sup> state).

Figure 1.1: Map of Malaysia



Source: World Atlas

In the decades that have followed post-Independence, Malaysia has experienced considerable challenges, which include the establishment of major policies and institutional structures to manage forces operating at both domestic and global levels. Domestically, the political economy of Malaysia is largely shaped by its historical context, which deliberately retained raced-based social order in its developmental agendas. The nation-building process has seen considerable state intervention in the economy, a prime example of which is the nurturing of *Bumiputera*. This has inadvertently created an ethnic identity as the centre of socio-economic and political rewards (Weiss, 2003), leading to a

mixture of laws, rules, regulations and the degree of enforcement. The implementation of *Bumiputera* affirmative policy claimed to address the economic status of *Bumiputera*; an espoused prerequisite to achieve national unity, social cohesion and stability (see Gomez and Jomo, 1997; Verma, 2002).

The privatisation and liberalisation of domestic economy saw the establishment of government-linked companies (GLCs)<sup>15</sup> which aimed to assist *Bumiputera* in the process of capital accumulation and corporate sector participation (Gomez and Jomo, 1997; Nesadurai, 2000). However, the state continues to hold ownership and control rights in many privatised corporations through its agencies, making the presence of the state in the economy significant. This structure not only created a condition for capital accumulation but secured the interests of the economic elite; inevitably breeding the growing phenomenon of crony capitalism that eventually controlled the economy (Jomo and Tan, 1996). GLCs continue to hold the *de facto monopoly*, despite most of them generally underperforming and generating less profit per worker and earning a lower return on equity (The Economist, 2005).

The *Bumiputera* policy has had considerable implications on the country's political, economic and social systems, including the state apparatuses in promoting social responsibility and public accountability. The policy has inadvertently raised the cost of doing business due to rent-seeking, patronage and opaque government procurement which has paved the way for corruption, economic mismanagement and power abuse (NEAC, 2010). This is evidenced by the Auditor General Report that regularly exposed wastage, negligence and mismanagement in public spending including leakage and

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<sup>15</sup> GLCs are defined as corporations which have a primary commercial objective and those in which the Malaysian government has a direct controlling stake.



cronyism-tainted spending (Auditor General Report, 2012).<sup>16</sup> The online news portals allegedly claimed that the Malaysian economic system is corrupted and has infected every ministry, GLCs and institution across the nation (The Malaysian Insider, October 2, 2013).

Whilst *Bumiputera* policy produced a new class of rich *Bumiputera* businessmen and also benefited friends and families connected to the ruling party (Gomez and Jomo, 1997),<sup>17</sup> national policies have failed to achieve the objectives outlined: poverty eradication and restructuring of society (NEAC, 2010). The cause for concern highlighted by online news portals is the inequality attributed to the widening gap between rich and poor (The Star Online, August 3, 2013). According to the statistics, income growth has been strong only for the top 20% of Malaysian income earners, whilst the bottom 40% of households have experienced the slowest growth of average income (NEAC, 2010). Besides, the concern is also attributed to the rising cost of living whereby concessional agreements undermined public welfare through higher user charges (Jomo and Tan, 1996; Zachariah, 2014<sup>18</sup>).<sup>19</sup> Hence, it can be implied that the country's socio-economic and political environment is characterised as possessing systemic imbalances in the distribution of power, influence and skewed patterns of income distribution.

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<sup>16</sup> Despite getting panned for the same mistakes as revealed in the Auditor General's Report, critics are baffled on why government agencies continued to show negligence, power abuses and corruption in its operations. See for instance:

The Malay Mail Online (2013): *MACC panel 'baffled' by repeated weaknesses in government*;

The Malay Mail Online (2013): *Pakatan: A-G highlights show 'institutional problem' in Putrajaya*.

Although Malaysian Anti-Corruption Commission (MACC) and Consultation and Corruption Prevention Panel (CCPP) had highlighted continued discrepancies in the government operations, but actions taken in response to the incidents remains problematic.

<sup>17</sup> Barisan Nasional (the National Front) is the dominant political party and has been ruling Malaysia since independence. The party represents three main ethnic groups: Malay-based political party – UMNO (United Malays National Organization); Chinese – MCA (Malaysian Chinese Association); and Indian – MIC (Malaysian Indian Congress).

<sup>18</sup> <http://www.themalaysianinsider.com/malaysia/article/crony-monopoly-of-basic-goods-caused-price-increases-says-rafizi> (assessed on January 15, 2014).

<sup>19</sup> In response to this concern, the treasury claimed that the establishment of GLCs was not just for mere profit-making but also to fulfil its social responsibility and nation-building objectives (The Malaysian Insider, October 1, 2013).

Besides, rapid industrialisation over the years has had its downside, in terms of environmental degradation and pollution which have affected the life of communities. Among the various environmental problems that Malaysia has faced is deforestation due to illegal logging, destruction of coral reefs, land clearing for palm oil plantations which has threatened many inhabitants, air and water pollution and waste disposal problems.<sup>20</sup> Industrial waste remains a major problem as the country has only one final disposal facility and the disposal costs are relatively high. Hence, illegal dumping is an ongoing problem and makes major headlines in the newspapers and other media.<sup>21</sup> Besides, various types of sludge and wastes coming from domestic and industrial sewerage, effluents from livestock farms, manufacturing and agro-based industries, housing and road construction, logging and clearing of forests have deteriorated the quality of river and water in Malaysia.<sup>22</sup> This has negatively affected communities whose livelihoods depend on Malaysian rivers.

Similar to other developing countries, Malaysia has depended on the accumulation of capital at both domestic and international levels as part of the process of economic growth and social development. Economic globalisation, driven by the neoliberal agenda

<sup>20</sup> [http://wwf.panda.org/who\\_we\\_are/wwf\\_offices/malaysia/environmental\\_problems\\_malaysia/](http://wwf.panda.org/who_we_are/wwf_offices/malaysia/environmental_problems_malaysia/) (assessed on December, 2013).

<sup>21</sup> Information gathered from various sources such as newspaper and online news and portals. See, for instance:

- a) Chandravathani, S. (2006), Illegal Dumps: Malaysian Way of Life? Bernama.com, <http://www.bernama.com/bernama/v3/printable.php?id=189724> (assessed on December, 2013).
- b) Environmental Issues in Malaysia: Waste Disposal, <http://markinmalaysia.blogspot.com/2010/11/environmental-issues-in-malaysia-waste.html> (assessed on December, 2013).
- c) Illegal Dumping Spoils Recycling Efforts, <http://www.thestar.com.my/News/Community/2013/01/18/Illegal-dumping-spoils-recycling-efforts/> (assessed on December, 2013).
- d) MPP Warns against Illegal Dumping <http://www.theborneopost.com/2013/09/18/mpp-warns-against-illegal-dumping/> (assessed on December, 2013).
- e) Nazerry R. R. and Abdul Haqi, I. (2007), Illegal Dumping Site: Case Study in the District of Johor Bahru Tengah, Johor, ICoSM2007, [http://dspace.unimap.edu.my/dspace/bitstream/123456789/1179/1/ICOSM%202007%20\(NAZERRY\).pdf](http://dspace.unimap.edu.my/dspace/bitstream/123456789/1179/1/ICOSM%202007%20(NAZERRY).pdf) (assessed on December, 2013).
- f) Tan, B. (2013), Toxic Waste Dumped near Homes, [http://www.ecologyasia.com/news-archives/2003/dec-03/thestar\\_20031205\\_1.htm](http://www.ecologyasia.com/news-archives/2003/dec-03/thestar_20031205_1.htm) (assessed on December, 2013).

<sup>22</sup> A study conducted by the Department of Environment (DOE) found that 13 rivers (10.8 %) were seriously polluted while 47 rivers (39.2 %) were slightly polluted based on the Water Quality Index (WQI) in 2001.

is seen as a prerequisite for socio-economic growth, and the key to achieving such growth is through privatisation, liberalisation of domestic economy and rapid industrialisation. In order to accelerate the pace of industrialisation and to encourage foreign investment, the state has implemented substantial measures by providing necessary infrastructure, facilities and attractive investment packages (see Jomo and Tan, 1996; Jomo *et al.*, 1995). According to the UNCTAD statistic (United Nation Conference on Trade and Development), foreign investment inflows had increased almost twenty-fold, from US\$94 million in 1970 to US\$2.6 billion in 1990 and peaking at US\$9.10 billion in 2010.<sup>23</sup>

The discussion so far has shed some light on the implications of *Bumiputera* policy and the reliance of the state upon domestic and foreign investment to stimulate socio-economic growth. The process of capital accumulation and the need to accommodate and respond to the bargaining power of comparatively footloose international capital has fundamentally compromised the state authority to regulate and control capital (see Arnold and Sikka, 2001). As the country is enmeshed with conflicts and contradictions over the accumulation of capital, the ability of existing institutional structures to advance social responsibility and public accountability remains problematic. In this context, a number of scholars argue that social practice such as CSR has been implicated in broader ideological and political struggles in society (see Hopper *et al.*, 1987).

### **1.3.1 Broadening the Notion of Governance: CSR as a Way Forward?**

Previous discussion demonstrated that CSR is embedded within the dynamics of the wider political and socio-economic context of Malaysia. It can be observed that CSR is considerably shaped by the national socio-economic arrangements, in which the administrative guideline and policies have not entirely negated *Bumiputera* policy.

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<sup>23</sup> <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx> (assessed on October, 2011).

Amongst the state aspirations outlined in the national policies are to correct the imbalances in the corporate sector participation and to increase the percentage of *Bumiputera* directors on public-listed corporations. This has influenced the governance structure of corporations, including the appointment of corporate board members and senior management. GLCs as a core sector of *Bumiputera* economic reform have become a major player in the practices of CSR.

To stimulate the proliferation of CSR, the state has established various mechanisms including the establishment of the National Integrity Plan, the transformation of GLCs into high-performing entities and the Prime Minister's CSR awards. In the 2007 budget speech, the Prime Minister announced that all public-listed corporations are required to disclose their CSR activities in the corporate annual report. Moreover, in the 2008 budget speech, a CSR fund with an initial sum of RM50 million is established to jointly finance selected CSR projects.<sup>24</sup> Under the state administrative policies, CSR initiatives are aligned to support national plans to alleviate poverty, provide better access to education and basic services to underserved communities. Such focus presumably suggests that the country's national policies are still struggling to address poverty, which has affected underprivileged communities' lives and livelihoods, in terms of loss of opportunities in education and basic services. This is evidenced by the NEAC's Report (2010: 41) that revealed almost 4% of all Malaysians and over 7% of rural Malaysians live below the poverty line.

Nevertheless, the development of CSR can be seen as the state's effort to legitimise social and economic relations and to address the international community's concerns regarding the patronage-based economic system that has entrenched Malaysia's political economy. It has therefore been argued that the expansion of CSR is linked to the efforts

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<sup>24</sup> Please refer to Appendix 1-3: CSR initiatives in the 2007-2013 Budget Reports.

by the state to attract the rapidly growing global socially-responsible investment market as a catalyst to stimulate the country's socio-economic development (see Thornley *et al.*, 2011). The process however, relies on the ability of the state to enforce necessary institutional structures for promoting good governance and to mitigate competing pressures inherent in a contemporary global capitalism which may constrain responsible business practices.

#### **1.4 Aims of the Research and Research Questions**

This study seeks to examine the nature of CSR practices and to understand its potentialities and limitations from multiple perspectives in the context of Malaysia. It aims to gain insight into how CSR has been constructed and rationalised as institutionalised practice in Malaysia. In an attempt to contextualise the analysis of CSR, the study considers the national institutional context, the role of social actors and power relations, thereby adding a new dimension to the research in this field. The following research questions are addressed in this study:

- I. How has history, socio-economic and political arrangements in the post-independence period contributed to the development of CSR in Malaysia?
  - a) How has *Bumiputera* affirmative policy contributed to shaping the business landscape in Malaysia and simultaneously influenced CSR initiatives?
  - b) What are the state policies and programmes directed towards the development of CSR in Malaysia?
  
- II. What is the nature and extent of CSR initiatives and engagement within the socio-economic and political context of Malaysia?
  - a) How do corporations in Malaysia conceptualise and understand CSR?
  - b) How do corporations address their social and environmental concerns?

- c) How do Malaysian stakeholders understand CSR and what is their view on CSR initiatives and engagement?

This study seeks to contribute to the literature by considering the dynamics interrelations between social actors and institutional structures and how such interactions may further construct and shape CSR in Malaysia. The study argues that whilst CSR framework has been mobilised at the national level to inculcate the responsible business practices, the present institutional structures may impede the development of CSR, as it has been subordinated to privilege the interest of capital. For this reason, the study suggests for institutional reforms to compel practices and disclosures relating to social and environmental responsibility, public accountability and governance in Malaysia, particularly in the case of government-linked companies.

### **1.5 The Research Methodology**

In terms of the methodological framework, this study is underpinned by social constructionist perspective and adopts an interpretive approach for analysing CSR. It acknowledges the peculiarity of history, social, economic and political environments that are likely to shape the social views about CSR in Malaysia. The historical analysis of the interrelationships between these structures provides a 'milieu' for understanding the development of CSR in Malaysia. In-depth review on CSR development (through periodization analysis) is undertaken by reviewing state policies and programmes, the legal and regulatory framework and electronic sources (such as online databases, web sites and the internet) to understand CSR landscape and the possible causes that advance or mitigates corporate engagement towards CSR. In order to understand the contradictory role of the state, the increased power of corporations and the pressure of economic globalisation in the implementation of, or accelerating demands for CSR, this

study incorporate political economy theory, developmental state theory and global capitalism to enrich discussion on CSR in Malaysia.

The study is informed by multiple case samples, used to examine the nature and extent of CSR initiatives by Malaysian public-listed corporations. These samples are chosen to examine the similarities and differences in CSR policies and initiatives and to understand the possible causes that advance or mitigate corporate engagement towards responsible business practices. The initial sample comprises of the 30 largest corporations listed on the Bursa Malaysia's Main Board. Having identified these samples, the researcher had to work hard to get access and interviews. Unfortunately, only one corporation responded and two separate interviews were undertaken with the person(s) in charge of CSR.<sup>25</sup> In order to enrich research finding, the study incorporate secondary data and has to rely on the corporate reports (such as annual report and social reporting) that can be retrieved from the corporate web pages for a period of ten years.<sup>26</sup> This is because the additional samples were selected after the researcher returned from the field work.<sup>27</sup> The final samples comprise only three public-listed corporations which feature different shareholding structures. This selection provides fruitful insights to understand on how ownership structures may shape governance mechanisms including corporate understanding and production of CSR in Malaysia.

The focus of analysis is on the meanings attached to CSR, which is examined through the use of language and rhetoric tools in corporate reports and documents. Given the constraint of this study, CSR is not analysed as an activity (or something that

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<sup>25</sup> Details discussion on the research design and method can be found in Chapter 3.

<sup>26</sup> This time frame of study is chosen to understand the production of CSR across the period. This approach is potentially helpful to understand changes that take place; particularly within the course of organisational life (for instance, how corporations and other social actors describe, explain or account for environmental and social responsibility).

<sup>27</sup> Under the scholarship rules, field work in Malaysia could only be conducted for a maximum period of three (3) months, otherwise a penalty is imposed as the student would be in breach of the contract.

corporations practice), but focus on how corporations construct meaning for CSR and making sense of their role in the society through disclosure made in the corporate reports and documents. This approach is potentially helpful particularly in examining social phenomenon in which actual practice and disclosure may not always fully mirror one another, as can be the case with CSR. In addition, it is crucial to acknowledge that although corporate reports and documents may exemplify the subjective world of the corporate executives but these data unable to articulate a diverse understanding of the corporate situation and change that may influence and shape responsible business practices in their organisations.

To enrich understanding of CSR within the socio-economic and political context of Malaysia, this study seeks multiple insights from various stakeholders about the potentialities and limitations of CSR. The views of stakeholders including the national trade union, employees, NGO representatives and government agencies are sought to enhance understanding of how CSR is socially constructed. Evidence also gathered from online sources to determine whether there is a gap between corporate 'talk' and 'action'. The findings reveal that such a gap does indeed exist.

## **1.6 Summary of the Findings and Limitation of the Research**

Empirical evidence demonstrates that CSR in Malaysia is not simply a social phenomenon; it is intertwined within the dynamics of wider socio-economic and political context and power relations in society, leading to a mixture of laws, rules, regulations and degree of enforcement. The Malaysian developmental model has been overwhelmingly organised around a complex amalgam of racial and economic goals, much influenced by the British colonialism. It reveals how political decisions essential to address the socio-economic issues in the post-colonial society has contributed to the articulation of hegemonic ideology, wherein *Bumiputera* policy is considered as



legitimate and further shaped the conceptions of social and political reality of Malaysian society. The state intervention in the economy, manifested through authoritarian rule has shaped societal values, particularly on how social conflicts are settled and how corporations are owned. This capitulates heavily to subsequent development of CSR, which is shown to be generally aligned to the state's developmental agendas. It can be observed that the state interventionist policy has always strived to maintain the accumulation of capital, mediating between national interests and global forces, whilst at the same time attempting to establish the basis for its own legitimisation.

Three sample cases yielded examples on how corporations in Malaysia defined and engaged in CSR activities. The review of corporate reports and documents showed that corporations increasingly pledged their CSR commitment by endorsing codes of conduct, social and environmental policies and publishing glossy social reports. However, it can be inferred that the 'comply and explain' approaches of Bursa's Listing Requirements confer considerable powers to corporate managers to define CSR based on their own terms. A closer examination of various reports and documents revealed that *Bumiputera* affirmative policy not only predicated the path of nation-building, but considerably shaped CSR practices in Malaysia. CSR initiatives are greatly driven by the state through its agencies, mainly aimed to alleviate poverty and provide equitable access to education. Such focus presumably suggests that the country's national policies are still struggling to address poverty, which has affected underprivileged communities' lives and livelihoods, in terms of the lack of educational opportunities and basic services.

The study also provided evidence from the semi-structured interviews conducted among the representatives of civil society groups and non-governmental organizations (NGOs), the employees and various government agencies and bodies. The stakeholders generally acknowledged the complexity in explaining CSR discourse because it was tended to be biased based on the nature of the organisation. The views from the

stakeholders also highlighted the conflicts inherent in the socio-economic and political environment which has ripened the practice of crony capitalism. This is evident by ethnic preferences in employment, corporate ownership and access to the economic resources and rents. The interviews indicated that the country's present institutional structures have impeded the development of responsible business practices and other governance mechanisms, as it has been subordinated to privilege the interest of capital and a particular elite group in a capitalist society.

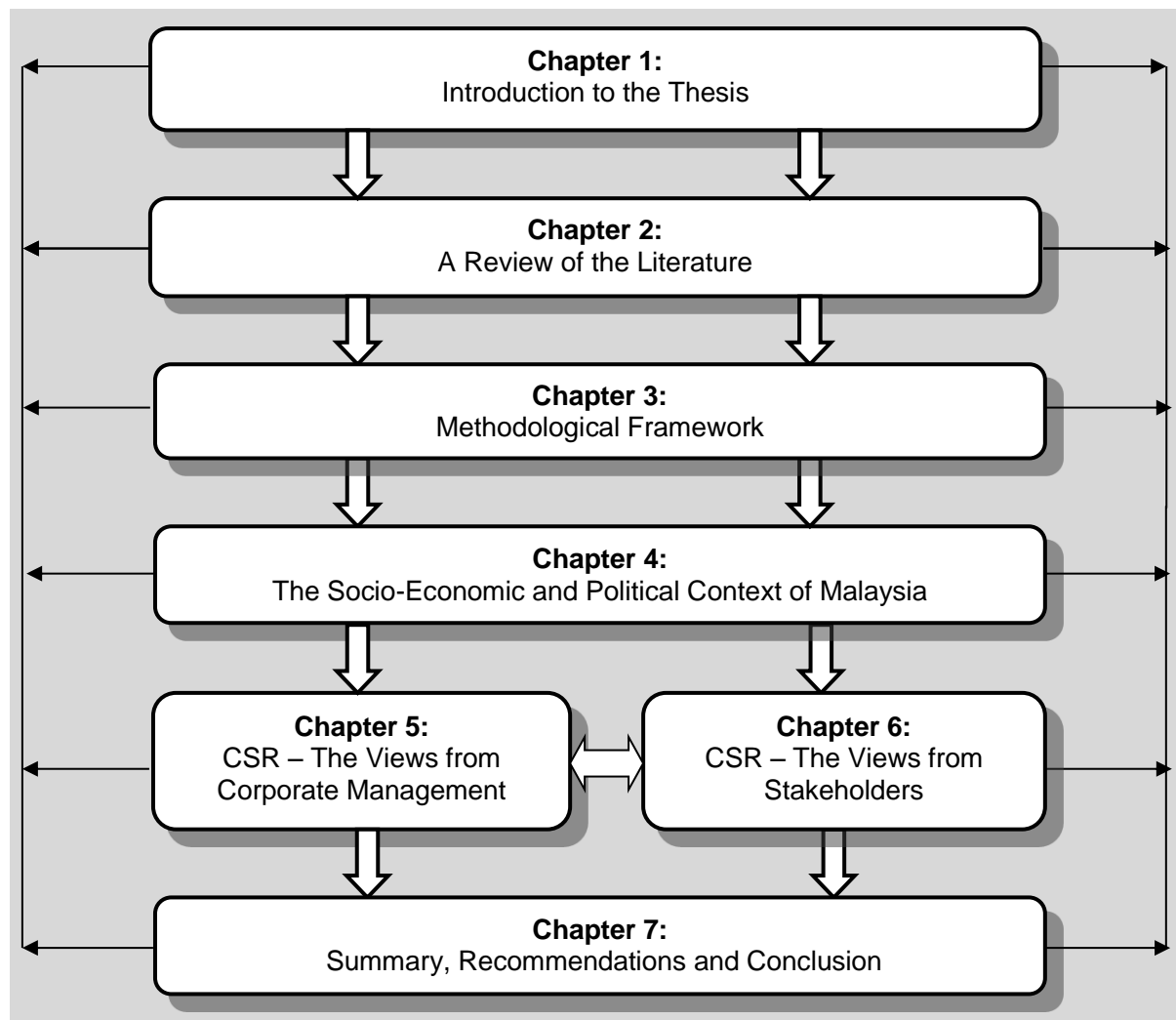
This study is limited by the lack of interview data, particularly relevant respondents due to the lack of access and personal affiliation with a member of the corporate senior executives. In order to supplement materials from the interviews, it is necessary to use secondary data sources (such as corporate reports and documents, press clippings, government reports). For this reason, the study is unable to provide a comprehensive review of CSR and thus, limit understanding of the corporate situation and change that may shape CSR across time. Besides, the study was limited to the three sample cases, but it is hoped that this study serves as a catalyst for further research on CSR in Malaysia.

The study suggests for further research to be conducted in order to understand CSR potentialities from a wide range of perspectives and incorporates understanding of power relations, the role of the state, the intensification of corporate global capitalism, and the domestic institutional setting that continually influenced and shaped CSR practices. Future research may incorporate different methodological framework, with the aim of bringing socio-economic justice, morality and ethics, and human rights reforms which is crucial to advance responsible business practices.

## 1.7 The Structure of the Thesis

Figure 1.2 represents the structure of the thesis, which is organised into seven interconnected chapters. The outline of each chapter is described as follows:

**Figure 1.2: Structure of the Thesis**



*Chapter 2* consists mainly of a literature review, which will serve as the research framework to the present study. The aim is to assist in understanding CSR in the context of developed and developing countries. The chapter examines how the socio-economic and political changes over the years have transformed corporations into a modern entity and further shaped the demands for CSR. In this chapter, three competing perspectives on the nature of corporations are considered to understand whether corporations have

responsibilities towards various constituents. It examines CSR trends, issues and themes to shed some light on how CSR is being informed and understood in the literature. It also examines different theoretical perspectives employed in the existing CSR literature to explain social and environmental responsibilities.

*Chapter 3* develops the methodological framework for this study. The study is underpinned by social constructionist perspective and adopts an interpretive approach for analysing CSR. It argues that the construction of social practices such as CSR needs to be understood from historical context, which give considerable attention to the social relations embedded in the socio-economic and political environment that are likely to shape the social views about CSR. The historical analysis of the interrelationships between these structures provides a 'milieu' for understanding CSR in Malaysia. In order to understand the contradictory role of the state, the increased power of corporations and the pressure of economic globalisation upon CSR, this study incorporate political economy theory, developmental state theory and global capitalism as a 'map' and 'lens' for aiding the understanding of CSR in Malaysia.

*Chapter 4* examines the socio-economic, political and legal history of Malaysia to cast some light upon the competing pressures from both domestic and global structures in the development of CSR. The chapter highlights that the Malaysian developmental model has been overwhelmingly organised around *Bumiputera* policy, much influenced by history and political decisions essential to address socio-economic issues in society. The chapter demonstrates that *Bumiputera* policy and the state intervention in the economy have shaped societal values, particularly on how social conflicts are settled and how corporations are owned. This capitulates heavily to subsequent development of CSR, which is shown to be generally aligned with the state's developmental agendas. The chapter argues that the socio-economic, political and legal characteristics of Malaysia affect the way social and environmental responsibility is discharged through the

manifestation of CSR reporting. The chapter provides the background to aid understanding of the empirical analysis on CSR.

*Chapter 5* discusses three sample cases to provide evidence of the management views on CSR. The chapter examines corporate reports and documents (such as corporate annual reports, social reporting, corporate websites, press releases and other necessary documents) in order to shed some light on how CSR is being conveyed, through their manifestation of CSR principles and policies. These data represents on how corporations perceive of and understand CSR, and provide evidence on how they integrated CSR elements into their daily corporate activities. The chapter also presents evidence from semi-structured interviews conducted with the corporate managers from one corporation.

*Chapter 6* provides insights into CSR practices from the stakeholder perspective, which includes regulators, government agencies and NGO representatives. The results of the interviews provide evidences of the gap between corporate pledges about commitment to CSR and how they are actually implemented in practice.

*Chapter 7* provides a summary of the findings and implications of the study. It provides reflections upon the methodology employed in the study which has aided understanding of the development of CSR in Malaysia. The chapter also makes some recommendations for reform of the governance structure to address socio-economic and environmental problems in Malaysia. The chapter concludes by discussing the contribution of the study to the existing literature, acknowledging the limitations of the study and making recommendations for future research.

## **1.8 Summary and Discussion of the Chapter**

This chapter has outlined the aims and the intellectual journey of the study, which is concerned with understanding on how CSR is influenced and shaped by the larger institutional environment in which it is embedded. It has been argued that CSR is a social practice, embedded in the socio-economy, politics and history of a particular society. As Malaysia continues to be dependent on domestic and foreign investment to foster its economic growth and social development, it is essential to acknowledge the global economic forces on local imperatives which continue to shape, influence or undermine CSR in Malaysia. This has simultaneously shape corporate understanding and production of CSR in Malaysia.

The next chapter is concerned with building a grounding of CSR through a literature review. Chapter 2 is concerned with reviewing of the relevant literature on CSR.

## CHAPTER TWO

### A REVIEW OF THE LITERATURE

#### 2.0 Introduction

This chapter reviews themes and issues of corporate social responsibilities (CSR). The review would enable the researcher to identify gaps in the literature and hence, assist in identifying the contribution that this thesis hopes to achieve. The review also seeks to become acquainted with the theoretical perspectives employed to understand CSR and to identify empirical issues, which may be useful in developing a methodological framework for investigating CSR in Malaysia.

The review of the literature shows that CSR has sparked considerable interest since the 1950s and thereafter as corporations faced social protest (Carroll, 1999; Frederick, 2006). This is evident by the considerable increase in the volume of CSR literature, employing a variety of theoretical approaches (see Banerjee, 2007, 2008; Vogel, 2005). The cause of this is, to a large extent, driven by the pressures from civil society groups, the academics and the media, who have problematized the increased economic and political power of corporations and the consequences of this power on larger society and environmental wellbeing (see Bakan, 2005; Korten, 2001). However, critics argue that CSR literature rarely problematize the contradictions and problems inherent in a capitalist society and hence, little weight is attached to the historical and institutional structures, social conflicts, power relations and the role of state in a capitalist society which might advance (or impede) the demand for CSR (see Spence, 2007; Tinker *et al.*, 1991).

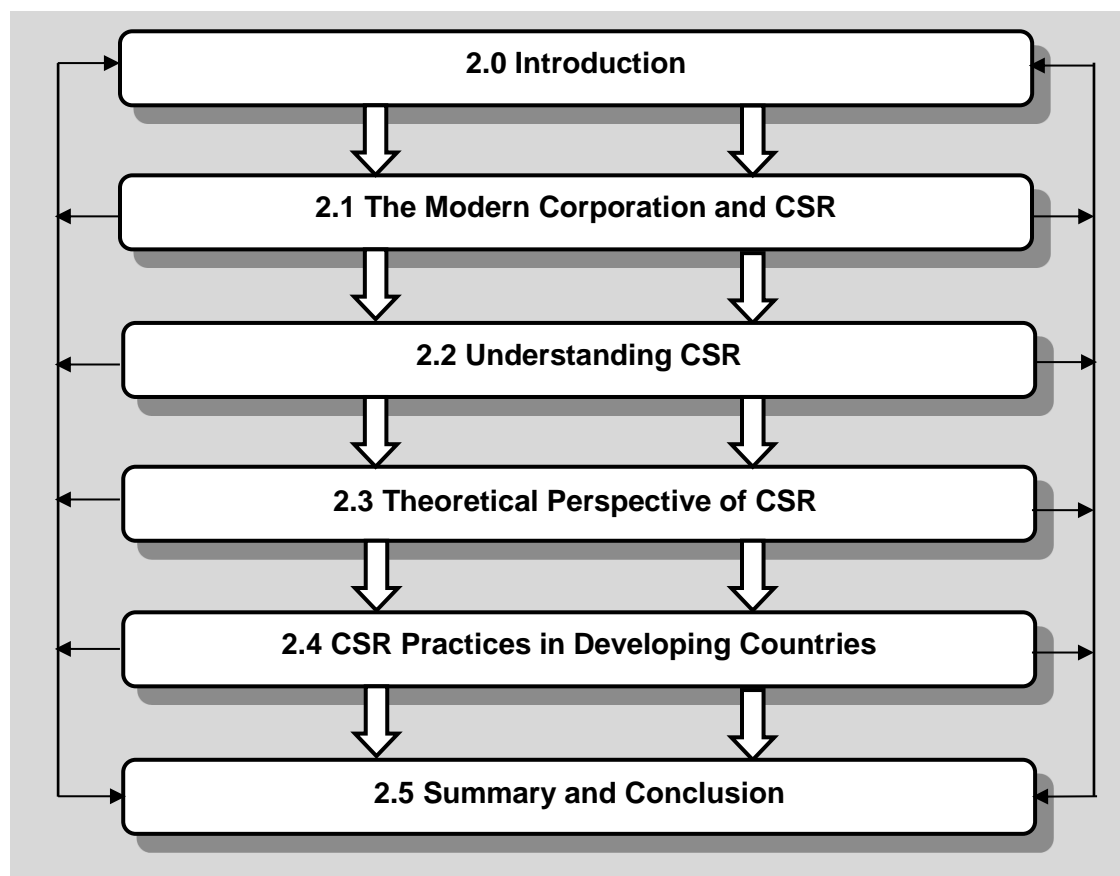
The scrutiny from various stakeholders has prompted many corporations to embrace CSR. This can be seen from the increased numbers of corporations that produced social and environmental information in their corporate annual reports or social reporting

(Cooper and Owen, 2007; Deegan and Gordon, 1996; Detomasi, 2008; Gray *et al.*, 1995). Nevertheless, critics argue that CSR may be used for 'window dressing' to spin off the corporate wheel, replacing mandatory government regulation with self-regulation (Korten, 2001) and to suppress increased public concern about the negative impact of industrialisation and the growth of corporate power (Cheney *et al.*, 2007).

In order to understand CSR, the chapter is divided into six interconnected sections (see figure 2.1). Section **2.1** discusses the nature of corporation and accentuates the tensions and contradictions inherent in the framework within which it operates. The review is necessary to understand how social, political and economic expansion over the years has contributed to the development of modern corporations, which have simultaneously obstructed (or aided) the demand for CSR. Section **2.2** elucidates that despite the flourishing interest in the field of CSR over the years, CSR remains a major concern to scholars, policy-makers and the corporation itself, as the definition of social responsibilities for corporate entities remains contested. It also considers the development of CSR over the years. It shows that CSR has become a marketing tool and with the propagation of business cases; CSR emerges as a business in its own right. Section **2.3** examines dominant theories adopted to understand CSR. Whilst earlier studies on CSR employed an agency theory, more recent studies have employed stakeholder and legitimacy theory and have seen an increased use of political economy theory which has problematized the interaction between structure, social actors and power relations. Section **2.4** reviews prior studies on CSR in developing countries. The section is important because it provides the context and justification for an empirical research for this study. Finally, section **2.5** concludes the chapter with a general summary and conclusion.



Figure 2.1: Structure of Chapter 2



## 2.1 The Modern Corporation and CSR

Corporate social responsibility (CSR) has been the subject of considerable debate, despite having a prolonged history from the earliest days of modern corporate form (Sadler, 2003). The debate focuses on the argument that modern corporations should be held publicly accountable to society for their decisions and actions (see Bakan, 2005; Frederick, 2006; Sikka, 2010). The proliferation of interest in CSR offers a richer appreciation of the possibilities and limitations of addressing social and environmental problems prevailing in the contemporary global economy. In an attempt to contextualise CSR discourse and the nature of corporation, a number of scholars acknowledge the role of history in the development of corporation into its modern form (see Bakan, 2005; Banerjee, 2007, 2008). Avi-Yonah (2005) has encapsulated the nature of corporations into three competing perspectives: an artificial entity, a real entity and a nexus of

contracts. The following section demonstrates how changes in the socio-economy, polity and power structures construct the terrain of CSR.

### 2.1.1 Corporation as an Artificial Entity

In the period between mid-14<sup>th</sup> century and the late 18<sup>th</sup> century, the royal charters and the state legislatures in a number of European countries granted charters to corporations, which enabled them to come into existence as an 'artificial entity' (Avi-Yonah, 2005; Hirschland, 2006). As an artificial entity, corporations are recognised as a 'legal person', distinct from its owners and managers with several members who could choose others to succeed them (Avi-Yonah, 2005; Banerjee, 2008).<sup>28</sup> The public chartering of business "*legitimized, protected and controlled the enterprise as a tool of state power*"<sup>29</sup> (Hirschland, 2006: 40). Korten (2001: 61) states;

*"The corporate charter represented a grant from the crown that limited an investor's liability for losses of the corporation to the amount of his or her investment in it – a right not extended to individual citizens. Each charter sets forth the specific rights and obligations of a particular corporation, including the share of profits that would go to the crown in return for the special privileges extended."*

The state has power and rights, for the benefits of its citizens, to impose institutional structures to advance governance mechanisms (see Sikka, 2010). As an entity created by the state, corporations are thereby subjected to the state regulatory power and have obligations to work for social betterment. Corporations are therefore, expected to meet local laws, pay corporate taxes and make contributions to improve societal wellbeing (Avi-Yonah, 2005).

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<sup>28</sup> As a legal person, corporations can enter into legal agreements, sue and be sued, have the right to freedom of speech, enjoy property rights and have the right to accomplish their goals with limited liability imposed upon it (Avi-Yonah, 2005; Banerjee, 2007; Bendell, 2004; Plesch, 2005).

<sup>29</sup> The legal charters specified the objectives and the terms of a corporation (Avi-Yonah, 2005) – which determined what a corporation could or could not do, how long it could exist and how it was obliged to serve the public interest (Banerjee, 2008). Besides, corporate charters issued by the state are revocable (Hirschland, 2006). Nevertheless, the charters of incorporation granted exclusive and monopoly rights to businesses and the state was liable to cover debts in the event of bankruptcy (Hirschland, 2006).

### 2.1.2 Corporation as a Real Entity

The business landscape and power structure in the 18<sup>th</sup> and 19<sup>th</sup> centuries had changed and witnessed legal developments that further refined corporate identity and purposes (Avi-Yonah, 2006; Banerjee, 2007). The Industrial Revolution (1750 – 1850) which took place in Europe, the colonial expansion that demanded more capital investment and political wrangling over the grant of incorporation had pressed for legal changes to facilitate business activity (see Bakan, 2005; Frederick, 2006; Hirschland, 2006). A series of legal changes transformed corporations into its modern form; from closely regulated and legislative-issued charters to the ‘general incorporation rule’ (see Banerjee, 2008; Korten, 2001). These legal changes were necessary for the operation of large-scale industry required in a time of economic expansion, development and growth (Hirschland, 2006). The British Parliament, for instance, passed the Joint Stock Companies Act 1844, which allowed corporations to incorporate without a royal charter or an Act of Parliament.

The general incorporation rule transformed the original corporate form into a ‘real entity’ with limited liability in its business undertakings (Avi-Yonah, 2006). From a real entity perspective, the corporation is seen as an entity separate from either its shareholders or an extension of the state (Avi-Yonah, 2005, 2006).<sup>30</sup> Corporations are viewed as having rights and obligations similar to an individual citizen and thus, having no social obligations to further larger social goals (Avi-Yonah, 2005, 2006). Although the real entity view remains silent on the dynamic business-society interrelation, corporations have a legal duty to comply with local laws as an individual citizen, and are encouraged to be accountable and socially responsible in their business dealings.

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<sup>30</sup> This corporate form, known as separation of ownership and control suggest that a group of people (managers) managed the company interests on behalf of the owners (shareholders) (Bakan, 2005).

### 2.1.3 Corporation as a Nexus of Contracts

The developments in the global socio-economic and political environment during the late 19<sup>th</sup> and 20<sup>th</sup> centuries have changed the nature of corporations and power structures that shape the relationship between corporation, state and society in a contemporary global economy. The ever-evolving business landscape, much influenced by neoliberal agenda and global capitalism has opposed all forms of state intervention beyond those required to secure private property and commercial activities (see Harvey, 2005; Hirschland, 2006). Jones (1979: 1262) argues;

*“The advent of general incorporation statutes ended state control of the corporation. When perpetual life, unlimited accumulation of capital, and incorporation for any lawful business purpose become characteristic features of the state incorporation statutes, state control of business enterprises evaporated.”*

The cause for concern is attributed to the contractual theory which views corporations as founded in private contract and hence, the role of the state is limited to enforcing contracts (Butler, 1989). In this context, the corporation is viewed as an institution with a ‘nexus of contracts’ which warrants legal and constitutional protections, similar to other legally enforceable contracts (Butler, 1989; Jensen and Meckling, 1976). The contract requires parties to the nexus of contracts to structure their relations as desired, and are generally centred on two perspectives of corporations: either (1) inherently guided by self-interest or (2) having ‘*enduring capacity to operate on the basis of civic virtue*’ (Regan, 1998: 305, cited in Banerjee, 2007; Shocker and Sethi, 1973).

The first perspective views the corporation as a set of private contractual relationship between managers, shareholders and the state (Berle and Means, 1932 cited in Mizruchi, 2004).<sup>31</sup> The proponents of this view argue that managers are obliged by contract to maximise the firm’s value within the legal framework and ethical customs of the country (Friedman, 1970). It is believed that profit maximisation can lead to the

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<sup>31</sup> Berle and Means’ work concerns the concentration of power in the hands of managers, the economic and political power of corporations and its impact (Mizruchi, 2004).

maximisation of social wealth (Garriga and Melé, 2004). Thus, the focus is on identifying institutions, markets and governance structures that would benefit the entire nation's population.

In contrast, a number of scholars argue that corporation is by necessity indebted to society in a form of social contract<sup>32</sup> (Campbell, 2000; Carroll, 1999; Gray *et al.*, 1988).

Shocker and Sethi (1973: 97) argue;

*“Any social institution – and business is no exception – operates in society via a social contract, expressed or implied, whereby its survival and growth are based on: (1) the delivery of some socially desirable ends to society in general, and (2) the distribution of economic, social, or political benefits to groups from which it derives its power.”*

The notion of social contract is used to represent social obligations and the need for corporations to comply with social norm (Deegan, 2000). The cause for concerns is attributed to the consequences of corporate activities to the planet and human survival (see Bakan, 2005; Chwastiak and Young, 2003; Korten, 2001).<sup>33</sup> Margolis and Walsh (2003: 281) argue;

*“From society’s perspective, creating wealth and contributing to material well-being are essential corporate goals. But restoring and equipping human beings, as well as protecting and repairing the natural environment, are also essential objectives. Companies may be well designed to advance the first set of objectives, yet they operate in a world plagued by a host of recalcitrant problems that hamper the second set.”*

Despite being created by the state law and indebted to society in a form of social contract, the pursuit of profit that underpinned shareholder capitalism prevailed, as corporations rarely owe a responsibility to other constituents except their shareholders

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<sup>32</sup> The social contract is used to describe the relation between the corporation and the society with which it interacts.

<sup>33</sup> The occurrence of several industrial/environmental disasters, corporate collapses and scandals have shown that corporations often fail to uphold public accountability and social responsibility to society. The collapse of the Rana Plaza in Bangladesh (2013), the industrial and environmental disaster such as BP oil spill in the Gulf of Mexico (2010), NNPC oil pipeline explosion in Nigeria (2008), Chernobyl nuclear plant accident in Ukraine (1986), Union Carbide plant accident in Bhopal (1984) and the slow emerging crisis such as the Minamata Mercury poisoning in Japan caused considerable losses to the environment and human life (Deegan *et al.*, 2000; Shrivastava, 1995).

(Bakan, 2005). The pursuit of profit and cost efficiency often constrains management discretion to pursue social goals which might conflict with shareholders' interest (see Blowfield and Frynas, 2005; Sikka, 2010). In this context, the present form of corporation is enmeshed within the capitalist crisis, in which the interests of shareholders are secured through a private contractual agreement and hence, offers limited insight into the practice of CSR (Bakan, 2005; Carpon and Gray, 2000; Sikka, 2010).

Therefore, scholars insist for the need to move beyond the economic theory of a firm and develop a critical understanding of CSR (Banerjee, 2007; Sikka, 2010). Critics argue that CSR discourse should address the economic power and political influence of corporations (Sikka, 2010; Spence, 2007; Utting, 2007; Vogel, 2005) and shift the focus from specific shareholder demands to a broader analysis of corporation's connectedness to public discourses (see Scherer and Palazzo, 2007). Therefore, the issue to address is whether CSR can conceptualise the contradictions and conflicts surrounding the nature of corporation and its changing role in a contemporary global economy. The next section addresses the nature of CSR.

## **2.2 Understanding Corporate Social Responsibility (CSR)**

In order to understand CSR, a range of themes, categories and models have been proposed by scholars, employing a variety of competing theoretical approaches (see Banerjee, 2008; Campbell, 2007; Gray *et al.*, 1995; Guthrie and Parker, 1990; Scherer and Palazzo, 2007). However, despite growing interest in CSR research, the term remains ambiguous and contestable 'cluster concept' that overlaps with other competing concepts such as ethics, philanthropy, corporate citizenship and sustainability (Matten and Moon, 2004). The debate revolves around the meaning and 'operational definition' of CSR, as well as its implementation and management (Gray *et al.*, 1995). Besides, a number of scholars claim that CSR is a socially constructed concept for which an

unbiased or universal definition is neither possible nor necessarily desirable (Dahlsrud, 2008). Table 2.1 provides commonly cited CSR definitions which are encapsulated into three competing perspectives of modern corporations (as discussed in Section 2.1).

Premised on the neoclassical economic theory, the Nobel Prize winner – Milton Friedman (1970) argues that, “*the only one responsibility of business towards society is the maximization of profits to the shareholders within the legal framework and the ethical custom of the country.*”<sup>34</sup> The primary responsibility of a corporation is to pursue profits within the limits of the law and thus, other actions that impede such objective would indeed, violated their obligations to shareholders and weaken their economic performance (ibid).<sup>35</sup> However, the reliance on profit motives disregards the fact that corporations are part of the larger social system and thus, undermine the importance of socio-economic and political issues which affect various constituents.

Although shareholders capitalism postulated in the 1970s (Friedman, 1970) has since lost its stronghold in light of changing societal expectations, *the ‘leitmotif of wealth creation’* has remained the cornerstone of dominant CSR discourses (Windsor, 2001). Under the banner of *‘enlightened value maximisation’* (Jensen, 2002), the socio-economic objectives is turned into economic concerns, which provides the business-case for CSR (Lee, 2008). It is premised on an assumed compatibility between corporate profit motive and broader social and environmental imperatives (Carroll, 1991; Jensen, 2002; McWilliams and Siegel, 2001).

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<sup>34</sup> This narrow conception of responsibility suggests that the main role of corporations is to provide goods and services and to make a profit within the framework of legal requirements and minimal ethical constraints. The contention is made under the assumption that social welfare is maximized when the long-term value of the corporation is also maximized (Burchell and Cooke, 2004; Jensen, 2002; McWilliams and Siegel, 2001).

<sup>35</sup> Adherence to this economic reasoning, underpinned by shareholder capitalism has often comes with its rewards (in terms of shareholder wealth maximization and corporate growth) although this would lead to market failures and social externalities.

**Table 2.1: The Meaning of CSR**

<b>Source</b>	<b>Interpretation</b>	<b>Focus</b>	<b>Perspectives on Corporation</b>
Davis (1960: 70)	Businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest.	Enlightened self-interest	Artificial entity
Carroll (1991: 43)	(A corporation should) strive to make a profit, obey the law, be ethical and be a good corporate citizen.	Economic theory of the firm	Real entity
Wood (1991: 693)	A business organisation's configuration of principles of social responsibility, processes of social responsiveness and policies, programmes and observable outcomes as they relate to the firm's societal relationships.	Economic theory of the firm	Social contract
The World Business Council for Sustainable Development (1998)	The continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.	Enlightened self-interest	Social contract
The European Commission (2001)	A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.	Enlightened self-interest	Social contract
Kok <i>et al.</i> (2001: 288)	The obligation of the firm to use its resources in ways to benefit society, through committed participation as a member of society, taking into account the society at large and improving welfare of society at large independent of direct gains of the company.	Enlightened self-interest	Real entity
Prieto-Carrón <i>et al.</i> (2006: 978)	A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.	Enlightened self-interest	Social contract



This approach to CSR suggests that corporations should shift from mere compliance to a mode of engagement, from harm minimisation to value creation (Luetkenhorst, 2004) and thus, corporations should engage in *“actions that appear to further some social good, beyond the interests of the firm and that which is required by law”* (McWilliams and Siegel, 2001: 117). These social expectations are much attuned to recognising that responsible corporate behaviour would lead to sustainable business success (McWilliams and Siegel, 2001; Mitchell *et al.*, 1997). Underlined by economic rationality, this approach has gained strong support by mainstream researchers who seek to establish relationship between CSR to various direct and indirect business benefits (see Adams *et al.*, 1998; Aupperle *et al.*, 1985; Hackston and Milne, 1996; Kotler and Lee, 2005; Murray *et al.*, 2006; Porter and Kramer, 2006). However, many of these ‘links’ have remained tenuous (see Margolis and Walsh, 2003; McWilliams and Siegel, 2001).

Nevertheless, the intensification of economic globalisation has changed the operational context of businesses as stakeholder groups are putting new expectations in terms of how corporations should manage their social, environmental and economic impacts. The debates on CSR are no longer about businesses and society relationships but have become a way of rethinking about the social role of modern corporations (Albareda *et al.*, 2007). Scott (2007) for instance, proposes CSR elements which include: responsibility to the community; promoting democracy and citizenship; reducing poverty and inequality between rich and poor; protecting employee rights and good working condition; and promoting ethical behaviour. Korten (2001: 49) on the other hand describes a responsible corporation as;

*“[P]roduces and sells only safe and beneficial products, does not accept government subsidies or special tax breaks, provides secure jobs and a living wage, fully internalises its environmental and social costs and does not make political contributions or otherwise seek to advance legislation or policies contrary to the broader public interest.”*

Critics argue that difficulty in understanding CSR derives from how CSR is socially constructed, produced, transformed, negotiated, and contested in a specific national context; rather than concentrating on the definition of the concept *per se* (Dahlsrud, 2008). Hence, there is a need to reflect on the historical developments and the dynamics interrelations between business and society over the years in order to understand CSR.

### **2.2.1 The Development of CSR**

The interest in CSR has ebbed and flowed over time and often in response to emerging social and environmental pressures and changes in public opinion (Campbell, 2000; Guthrie and Parker, 1989). Hirschland (2006) describes CSR development through the lens of socio-economic and political changes which are framed into six periods of regulatory regime (see table 2.2).

The resurgence of interest in CSR is observed (particularly notable in the U.S.) in the 1950s as changes in the socio-economic and political landscape has shifted the social, economic and political power to large corporations (Hirschland, 2006). Bowen (1953) argues that corporations have become the centres of power and their actions touched the lives of many citizens across the world. The concerns over the impacts of industrialisation on people and the environment has seen social and environmental laws for workers, consumers and the environment are enacted to regulate corporations (Hirschland, 2006).<sup>36</sup> However, CSR discourse in that period was driven by philanthropic philosophy to promote the civic virtue of corporations (Banerjee, 2008). Much of the discussions were centred on corporate managers as public trustees, balancing competing claims of corporate resources and philanthropic support of good causes (Frederick, 2006).

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<sup>36</sup> Nevertheless, the reform focused on the rationalisation and stabilisation of the capitalist system rather than social-democratic reform (Hirschland, 2006).

Table 2.2: The Historical Development of Business and Society Relationships

Time Period	Early Statist	Progressive Market Restoration	New Deal Market Stabilization	Societal Protection	Efficiency Demand	Global Civil Regulatory
	Until Late 1800s	1900s – Great Depression	1930s – 1960s	Late 1960s – Early 1970s	Late 1970s - On-going	1990s – Early 21 <sup>st</sup> Century
Focus / Goal	Tight state control over corporate activities to bolster state power and to provide public goods	Market revitalization after era of powerful, market-distorting trusts; entrenchment of powerful social protections	Economic stability in wake of market meltdown	Environmental; occupational health and safety concerns in response to rising advocacy efforts	Manage / turn back the growing costs of regulation. Job creation in difficult economic times	Fill vacuum of limited state efforts to regulate global business practices especially in the developing world
Methods	Closely controlled and revocable corporate charters issued by state	Anti-trust legislation and new social and environmental laws for workers, consumers and nature	Regulation through greater government oversight and regulations; state-imposed industry regulatory boards	Agency regulation – EPA, OSHA – setting minimum operational standards	Executive branch role with focus on market friendly and cost benefit analyses before action	NGO-Firm partnership, codes of conduct, monitoring, SRI, reporting networks – public shaming
Demise	Demands for continental growth and expansion. Need for more dynamic access to capital	Decreasing adversarial stance between government and business, after World War I. Capture of regulation by regulated interests	Increasing inefficiencies of regulatory regime, mounting public debts plus continued concerns and evidence of regulator capture by business	Growing efficiency / market friendly standards of neoclassical liberal revival; oil shocks	Still dominant but threatened by increasing awareness of social and environmental business impacts	On-going, but potentially threatened by lack of state-based support; numerous and competing private regulatory standards
Legacy	Establishes business as accountable to larger social goals and control	Solidifies the importance of markets, recognizes their limits and role for government regulation	Solidifies role for the state in helping to offset market failures – ‘embedded liberalism’	Embeds advocacy network efforts into regulatory process, federal machinery and oversight	Forces justification of regulatory efforts in term of their costs and benefits	Reveals how global commerce poses challenges to state regulatory capacity – civil society, CSR networks grow

Source: Hirschland (2006: 36-37).

Hence, the complex interplay between business and society remained problematic as the state regulatory regime was seen as inefficient and captured by business interests (Hirschland, 2006). Carroll (2008: 26) argues;

*“The decade of the 1950s was one of more ‘talk’ than ‘action’ with respect to CSR. It was a period of changing attitudes, with business executives learning to get comfortable with CSR talk. There were very few corporate actions, beyond philanthropy, to report...”*

Social pressures and tensions remained and increased in severity during the ‘Societal Era’. The period witnessed civil society groups and NGOs (particularly notable in the U.S. and the U.K.) pressing for corporate reforms, demanding corporations to address social and environmental impacts of their global large-scale operations (Banerjee, 2007).<sup>37</sup> To promote economic stability necessary for continued accumulation of capital, the state established laws that addressed social and environmental concerns, despite rising business resistance due to the increased regulations (Hirschland, 2006).<sup>38</sup> However, CSR initiatives remain ‘soft laws’ and a large number of things are left at market friendly standards which believe private interests can be harmonised with the interests of society at large (Frederick, 2006). The cause for concern is attributed to the regulatory process, which often excludes the civil society and protest groups and NGOs from public-policy making of state apparatus and thus, issues relevant to particular stakeholders groups are often neglected.<sup>39</sup> Consequently, the regulatory agenda continues to grapple with problems of power in society and issues of responsibility and accountability of modern corporations remain contested.

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<sup>37</sup> The first Earth Days held in America in the 1970s, the demand by anti-Vietnam war activists for businesses to stop producing chemical weapons, African-American civil rights demands and women's groups' campaigns for equality in the workplace and protests against the use and transportation of toxic materials (Post *et al.*, 1996) has contributed to the impetus for change (Hirschland, 2006). The aim was to expand state regulatory powers in the areas of environment, occupational health and safety, consumer protection and recruitment of minorities (Hirschland, 2006; Miller, 1995).

<sup>38</sup> Some of the regulatory action included the establishment of the Environmental Protection Agency (1970), the National Highway Safety Administration (1970) and the Occupational Safety and Health Administration (1970) (Hirschland, 2006).

<sup>39</sup> Some of the issues raised are minimal concern for employees (e.g. quality of work life, safety and health in the workplace, fair treatment in employment), insufficient concern for environmental protection and management (e.g. disposal of waste) and poor consumer protection (e.g. health and safety of products, misleading advertising) (Frederick, 2006).

In the mid-1970s and 1980s, the 'Efficiency Era' witnessed revival for a more hands-off approach to the market, as excessive state meddling seemed to be bogging down the U.S. and the U.K. industrial competitiveness abroad (Hirschland, 2006). To promote the neoliberal agenda, efforts were made through the establishment of think tanks, political lobbying and commissioning of studies which simultaneously shaped the relationship between state, corporations and society (Hirschland, 2006). The 'Efficiency Era' remarked the beginning of Anglo-American business regulations reform which witnessed ideological shift and a period of deregulations, associated with the thinking of Thatcher-Reagan domestic regulatory reforms (Hirschland, 2006).

Nevertheless, contradictions and crisis tendencies arise as state strategies and policies are devised to promote the growth of capital and thus, compromise the state's capacity to regulate and control capital (see Arnold and Sikka, 2001). The increased exposure of environmental degradation and social abuses has prompted the United Nations Commission on Transnational Corporations to begin discussion on corporate codes of conduct, whilst the civil society groups, NGOs and the academia worldwide began to call for greater corporate responsibility and accountability (Bakan, 2005; Sikka, 2010).<sup>40</sup>

In order to maintain good image and reputation that is fundamental to corporate profitability, corporations claimed to address social and environmental issues, coined in the realm of 'best business practices' (Banerjee, 2008). The business-case<sup>41</sup> dominated public debates, espousing the claim that corporations can 'do well by doing good' (Bakan, 2005). The debates shifted from social responsibility to social responsiveness

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<sup>40</sup> The occurrence of industrial disasters such as the 1976 Seveso industrial accident in Milan, Italy – the exposure to toxicity of 2,3,7,8-tetrachlorodibenzo-p-dioxin(TCDD) in residential populations; the 1986 *Chernobyl* nuclear power plant accident in Ukraine, Russia – explosion and fire in operational reactor, fallout over thousands of square kilometres, possible 4,000 cancer cases; and the 1989 *Exxon Valdez* oil spill in Alaska – caused devastating effects to humans and environment.

<sup>41</sup> Zadek (2000) explains four different categories of business cases: (1) defend corporate reputations, (2) justify benefits over costs (the 'traditional' business case), (3) integrate with corporate broader strategies (the 'strategic' business case) and (4) learn, innovate and manage risk (New Economy Business case).

(Frederick, 2006), which pre-anticipated the stakeholders' era that refined the relationship between corporations and society.<sup>42</sup> Yet, the period experienced limited discourse on CSR as before and as a result, there was more 'talk' on CSR rather than concrete 'action' on the part of corporations (Carroll, 2008).

The 1990s witnessed the institutionalisation of global governance framework in response to corporate governance crises, notably the Asian and Russian financial crises of the late 1990s (Sklair, 2001) and addressing the impacts of corporate globalisation. Oxfam's White Paper on Globalisation (2000) argues;

*“As public consciousness about the power and impact of TNCs has increased, corporations have responded by proclaiming their attachment to ethical standards, preferably as expressed through non-enforceable codes of conduct. High profile cases involving oil and biotechnology companies in which billions of dollars have been wiped off from share values because of public concern over corporate practices have added impetus to this process.”*

Nevertheless, despite efforts to govern corporate global operations, there is no legally binding code of conduct and consequently, it remains soft laws and self-regulated. Corporations can voluntarily adopt international standards such as the UN Global Compact<sup>43</sup> and the ISO 14000 and ISO 14001 environmental standards<sup>44</sup> without legally binding mechanism. Hence, CSR discourses merely produce rhetoric about social responsibility, human rights and sustainability practices, without concrete actions (Kallio, 2007: 21). The concern raised by a number of scholars is due to the increased use of CSR as a public relation strategy (Carroll, 2008; Cheney *et al.*, 2007) and the emergence of CSR as a 'big business', an industry in its own right (Bakan, 2005; Banerjee, 2007).

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<sup>42</sup> This could be seen from changes in corporate reporting from profit oriented perspectives to encompass a broader view of CSR, which included environment conservation, employment and the effects of corporate policies on society and the environment (Ramanathan, 1976).

<sup>43</sup> The UN Global Compact comprises nine principles of core values in the areas of human rights, labour and the environment.

<sup>44</sup> ISO 14000 is standards developed by the International Organization for Standardization (ISO) that provide a guideline for organisations to improve their environmental management practices. Besides, ISO 14001 provides a framework for environmental management best practice to help organisations minimise their environmental footprint.

CSR has become a marketing tool used to manage corporate risks, build reputations (Cooper and Owen, 2005; Kotler and Lee, 2005) and to preserve organisational legitimacy<sup>45</sup> (Adler and Milne, 1997). In this context, Christian Aid (2004: 5) argues;

*“Corporate enthusiasm for CSR is not driven primarily by a desire to improve the lot of the communities in which companies work... [R]ather, companies are concerned with their own reputations, with the potential damage of public campaigns directed against them, and overwhelmingly, with the desire – and the imperative – to secure ever-greater profits. None of this necessarily means that companies cannot act responsibly. But it does mean that their attempts to do so are likely to be partial, short-term and patchy – leaving vulnerable poor communities at risk.”*

The ‘Global Civil Regulatory’ period in the late 20<sup>th</sup> century attempts to fill the vacuum of limited state efforts to regulate global corporate practices (Hirschland, 2006). This is attributed to increased social discontent regarding the growth of economic, social and political power of corporations and the consequences of this power on the state autonomy to manage and control capital for the benefits of its citizens (Frederick, 2006; Hirschland, 2006; Korten, 2001). Critics argue that CSR is used as a political instrument, aimed to preserve organisational legitimacy (Detomasi, 2008) or ideological movement, intended to legitimise the increased power of corporations (Mitchell, 1989).<sup>46</sup> Its development is seen as an attempt to create a soul for the corporate body, by emphasising corporate social obligations (Banerjee, 2007, 2008).

Whilst CSR has been rationalised, routinized and institutionalised into corporate practices, it continues to be defined by narrow business interests and shaped by economic rationality. Hence, managers’ discretions to pursue social goals are confined within the corporate sphere and thus, provide limited insights into CSR practices (Sikka, 2010). There is continued tension and conflict between what CSR discourses seeks to

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<sup>45</sup> It has been argued that CSR may be employed to manipulate public perceptions of corporate social performance, to alter public expectations of what constitutes an acceptable level of corporate social performance or even to eclipse the misuse of corporate power and abuse (Bakan, 2005; Banerjee, 2007).

<sup>46</sup> Scholars argue that corporation has a “*psychopathic personality*” because of its “unconcern for the feelings of others; incapacity to maintain enduring relationships; reckless disregard for the safety of others; deceitfulness; repeated lying and conning others for profit; incapacity to experience guilt and failure to conform to social norms with respect to lawful behaviour (see Bakan, 2005; Banerjee, 2007).

achieve and what actually happens in practice. In this context, critics claim that the development of institutional structures to promote CSR has arisen mainly because the capitalist economic system is struggling to maintain its legitimacy (Gray *et al.*, 1996).

### 2.2.2 Corporate Social Responsibility Issues

The discussion in the previous section shed some light on several episodes in the development of CSR. Discussion illuminates ambiguities surrounding CSR concepts including what CSR would possibly encompass. The mainstream CSR literature widely adopted Carroll's (1979, 1991)<sup>47</sup> pyramidal dimensions of responsibility, which categorised CSR into: (1) *economic responsibility* – emphasises that the role of corporation is to make profit and maintain a strong competitive position; (2) *legal responsibility* – emphasises the need to comply with legal framework; (3) *ethical responsibility* – refers to socially established moral standards; and (4) *discretionary responsibilities* – voluntary and philanthropic (see figure 2.2). Anchored from the economic and the legal view of the corporation, the model indicates the relative importance of economic responsibility, which serves as a foundation upon which other responsibilities are based on.

Although Carroll's model offers a comprehensive approach to CSR, it has its limitations. It is argue that CSR discourse remains contested as corporations attempt to reconcile various responsibility components in the model (McWilliams and Siegel, 2001). To compound such complexity, there is competing demand from various constituents such as employees, local communities and the state; over and above other factors such as

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<sup>47</sup> Carroll discussed three principles of CSR that operate at different levels of analysis: (1) institutional level – the principle of legitimacy focuses on obligations and sanctions that determine the boundaries of business-society relationships; (2) organizational level – the principle of public responsibility focuses on a firm taking responsibility for its business activities; (3) individual level – the principle of managerial discretion focuses on the morality and ethics of individual managers.



globalisation, power relation, conflicts and etcetera – therefore rendering it somewhat problematic to conceptualise what responsibilities could possibly mean.

**Figure 2.2: Carroll's Dimension of Responsibility**



Source: Carroll (1991, 2004)

Besides, critics argue that it might be inappropriate to adopt Carroll's model to conceptualise the complexity and dynamics of CSR in different socio-economic and political environments.<sup>48</sup> For instance, corporations emanating from the Anglo-American model (such as the U.S. and the U.K.) may view CSR as falling outside the legal scope and managerial competence of its managers; hence business expenses that could detract from profit maximisation are unnecessary (Detomasi, 2008). In line with that supposition, Pinkston and Carroll's (1996) study of the U.S. based multi-national

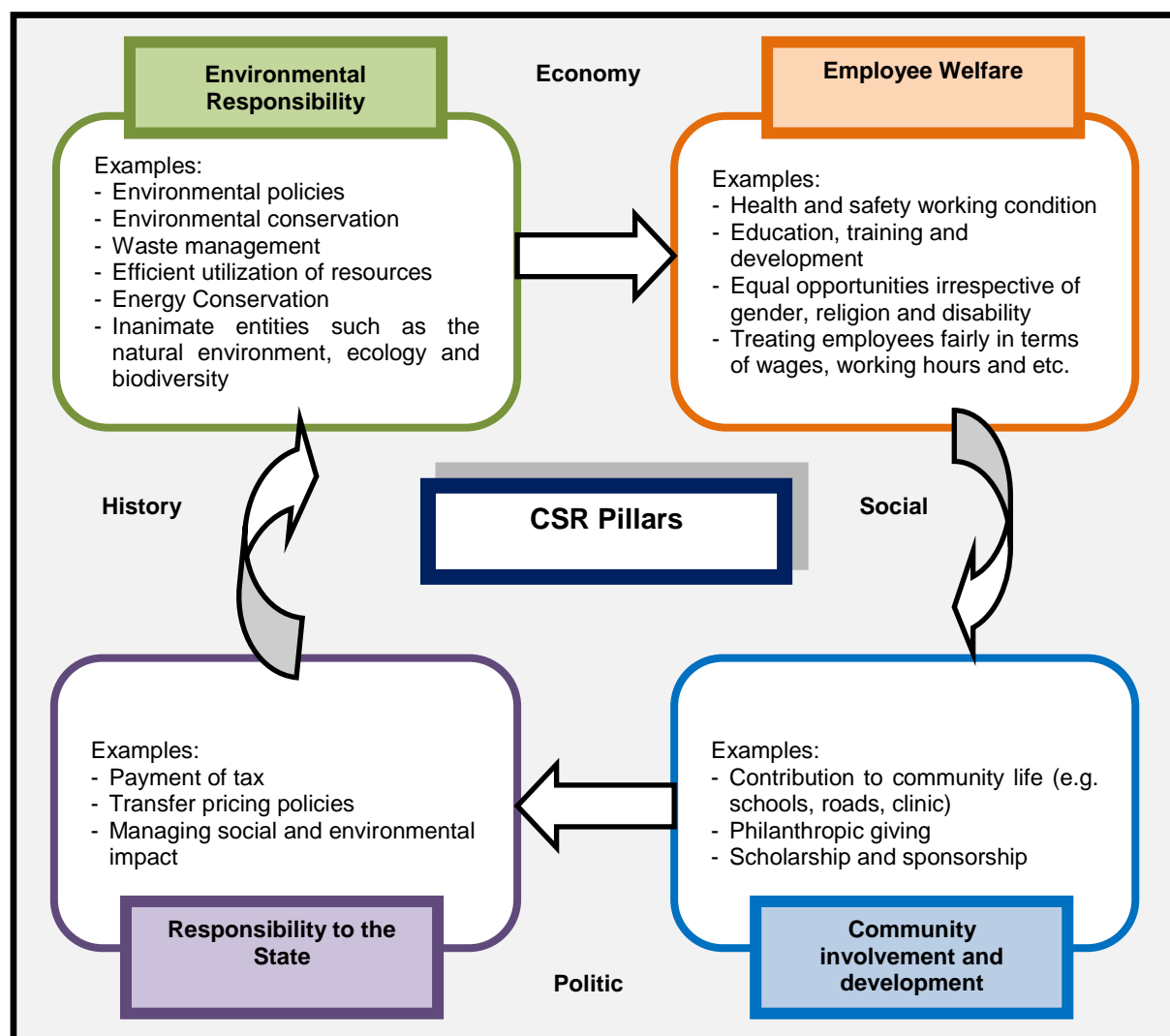
<sup>48</sup> 'Varieties of capitalism' theory argue that business and society relations can vary amongst countries because each country possesses distinct social structure, dominant issues, institutions and interests and is shaped by its unique history and cultural tradition (Hall and Soskice, 2001). These differences may influence how corporations interact and cooperate with other actors in society.

chemical subsidiaries found economic gain was the top priority followed by legal, ethical and discretionary responsibility. Van der Molen's (2005) study of the Australian corporations found that the management concentration was on profit motives, thus focus was directed towards quality of products, management and financial performance.

In contrast, Owen (2003) argues that there is a greater expectation for corporations in non-Anglo-American countries (such as France and Germany) to engage in CSR initiatives. He found that employees, environment and service were the most important themes of CSR reporting, reflecting the incorporation of broader societal interests in the corporate strategies and policies. Nevertheless, studies by Aupperle *et al.* (1985) and Pinkston and Carroll (1994) find that corporations in Germany and Sweden viewed legal responsibility as the first priority, followed by economic, ethical and philanthropic responsibility.

Besides, conceptualising CSR in developing countries presents considerable challenges as these countries often face social and environmental injustices (Sadler, 2003; Visser *et al.*, 2006) and these include inadequate basic necessities of life (such as water, food, shelter and clothing) and poor social infrastructure (such as electricity, sanitation, healthcare and education). It offers considerable scope for the exercise of CSR (Crane *et al.*, 2008). A growing body of literature has addressed a range of issues that are of particular interest to developing countries and these include: (1) *environmental responsibility* (Crane, 2000; Deegan *et al.*, 2000; Gray *et al.*, 2002); (2) *responsibilities to employees* (Bryer, 2010; Sikka, 2008); (3) *responsibilities to the community* (Calvano, 2008; Jones *et al.*, 2006; Newell, 2005) and (4) *responsibilities to the state* (Sikka, 2010) (see figure 2.3). The elements of these responsibilities are discussed next.

Figure 2.3: CSR Pillars and Initiatives



### 2.2.2.1 Environmental Responsibility

The interest in environmental protection and management has been fuelled by the corporate global expansion and instances of several industrial and environmental disasters (such as the *Union Carbide* plant accident in Bhopal, in India<sup>49</sup>) (Deegan *et al.*, 2000; Shrivastava, 1995; van der Lugt, 2009). Under the influence of NGOs (such as

<sup>49</sup> In 1984, forty tons of Methyl Isocyanate leaked from an underground tank and spread over the city, killing approximately 4,000 people and injuring 300,000 people, of whom 100,000 were seriously and permanently impaired (Shrivastava, 1995). The evidence suggests that the plant in Bhopal was operated with minimum personnel, lacked safety and environmental protection and lacked emergency plans and crisis prevention. This incident had caused immeasurable damage to the natural environment and a devastating effect on local communities. The incident led to claims about the health and safety issues of chemical industries and double standards practices by MNCs when it comes to compliance with health and safety standards at home and abroad (Brunner, 1984).

Greenpeace and Friends of the Earth) and scientific evidence relating to pollution, global warming and melting glaciers, a large volume of literature has examined aspects of environmental protection and reporting (Brown and Deegan, 1998; Deegan and Rankin, 1996, 1999; Deegan *et al.*, 2000; Gray, 2002; Guthrie and Parker, 1989). The cause of concern is attributed to the increased level of corporate activities which creates scarcity of natural resources, in terms of paucity of land and forests, depletion of non-renewable resources, biodiversity loss and the likely collapse of critical ecosystems (Ewing *et al.*, 2009). As the primary user of natural resources, corporations are expected to manage the social and environmental impacts of their large-scale global operations and safeguarding the planet's sustainability. Critics argue that if corporations continue 'business-as-usual' to meet the consumption demand of developed countries and emerging economies continue activities at current rates, 'overshoot' will increase.<sup>50</sup> Figure 2.4 shows humanity's ecological footprint and figure 2.5 shows that half of the global Footprint was attributable to just 10 countries in 2006, with the U.S. and China alone each using 23 and 21 percent respectively of the Earth's bio capacity.

In response to intense pressures, corporations pledge commitment to CSR by producing codes of conduct and introducing voluntary environmental campaigns (such as climate change campaigns and carbon dioxide strategies) (van der Lugt, 2009). It claimed to address public concerns about the potential environmental impacts of business plants, facilities and operations and involved stakeholders in improving local economic, environmental and social conditions through cooperation and partnership (Rondinelli and Berry, 2000).

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<sup>50</sup> Global overshoot occurs when humanity's demand on nature exceeds the biosphere's supply or regenerative capacity (Ewing *et al.*, 2009: 103). "When humanity's ecological demands in terms of resource consumption and waste absorption exceed what nature can supply, this ecological "overshoot" is a critical threat to society's well-being... ecological overshoot erodes the planet's "natural capital", our ultimate means of livelihood" (Ewing *et al.*, 2009: 7).

Figure 2.4: Humanity's Ecological Footprint, 1961-2006<sup>51</sup>

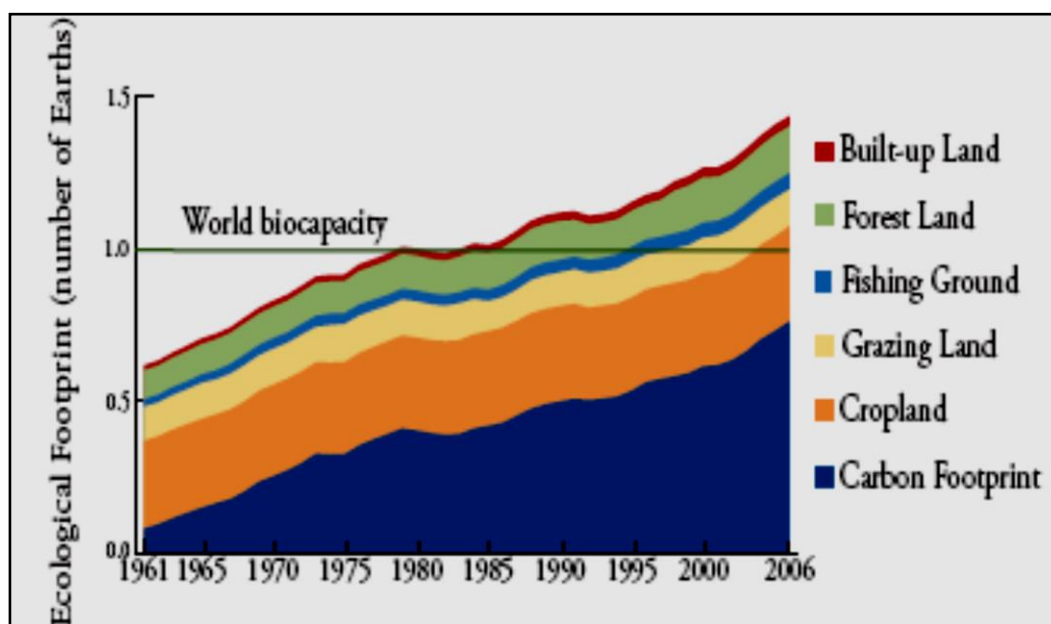
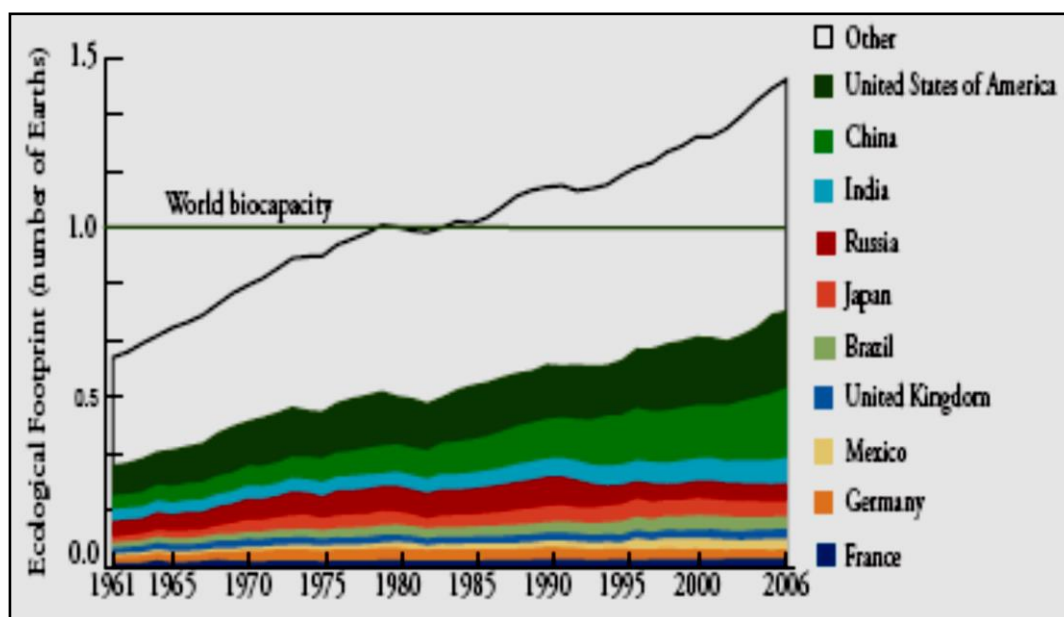


Figure 2.5: Humanity's Ecological Footprint by country, 1961 – 2006



Source: Ewing *et al.* (2009: 16), *The Ecological Footprint Atlas 2009*.

<sup>51</sup> In 2006, approximately 40 percent overshoot occurred, meaning that humanity used the equivalent of 1.4 Earths to support its consumption. It took the Earth approximately a year and four months to regenerate the resources used by humanity in that year (Ewing *et al.*, 2009: 16).

Critics argue that corporation in industries that appeared to be environmentally sensitive provide greater positive environmental disclosures; for instance, the mineral resource extraction industry, forest and paper industry, pharmaceutical industry, energy industry and petrochemical industry (Deegan and Gordon, 1996; Gouldson and Sullivan, 2007; Patten, 1992; Vidal and Kozak, 2008). Scholars contend that corporations have invested time and resources to improve their social and environmental management following the industrial incidents (Sullivan, 2005) and subsequently informed the public about their CSR policies and practices in their corporate reports (Deegan *et al.*, 2000). This is evident by the increase of social and environmental information disclosed in the corporate report and documents (Deegan *et al.*, 2000; O'Donovan, 2001; Patten, 1992).

Despite the professed claim about environmental policies and practices, problems remain on the 'sincerity' of corporate commitments to CSR. The exposure of corporate 'hypocrisy' reveals the increased use of social reporting to manage corporate legitimacy; as the concern of corporations is to maintain the 'social license to operate' (Campbell, 2004; Sullivan, 2005). The concern is about the extent to which corporate environmental policies and practices address the contradictions and systemic pressures prevailing in a capitalist mode of production.<sup>52</sup> Besides, limited insights are provided in terms of improving environmental practices in developing countries, although these countries face severe environmental degradation due to global business activities (Vogel, 2005).<sup>53</sup>

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<sup>52</sup> In the case of General Electric, the corporation failed to clean up the Hudson River after contaminating it with organic pollutants. The corporation continues to argue, via legal process, on the basis of liability; meanwhile the process of clean-up remains stagnant (Sullivan and Schiafo, 2005).

<sup>53</sup> Critics argued that much of the attention is concentrated on improving environmental practices in developed countries (Vogel, 2005). However, the increased emissions in countries such as India and China are the result of out-sourcing production from developed countries to meet consumption patterns and associated lifestyles in developed countries (Korten, 2001).

<http://www.globalissues.org/article/231/climate-justice-and-equity#WhyDontPoorCountriesHaveEmissionReductionTargets>

<http://www.globalissues.org/issue/235/consumption-and-consumerism> (accessed on 5 February 2012).

### 2.2.2.2 Employee Welfare

The realm of global labour rights and practices and the intensity of corporate outsourcing activities through global supply chains have accelerated interest in responsibility and accountability that corporations owe to its employees across the world (Crane *et al.*, 2008; Jenkins, 2005).<sup>54</sup> Nevertheless, critics argue that social history is littered with laws that discursively permit slavery, discrimination and injustice to women, children and workers (Sikka, 2010). In order to secure economic interests, history has witnessed the use of private security forces and state military troops to curb industrial conflicts and many have died in the battle (Banerjee, 2007; Korten, 2001).

The driving forces of global capitalism and the quest for profit would continue to expose employees to market forces and risks (see Deakin and Whittaker, 2007). This is because the employee welfare and occupational health and safety regulations are often subordinated to state policies to provide a competitive business environment (see Vogue, 2005). The International Labour Organisation (ILO, 2010) for instance, has estimated that more than 2 million people die from occupational accidents or work-related diseases each year; whilst 270 million have suffered non-fatal accidents and 160 million cases of occupational diseases.<sup>55</sup> Although occupational accidents or work-related diseases are declining each year in developed countries, the opposite trend is worryingly observed in developing countries. This is because corporations (particularly labour-intensive industries) have increasingly relocated their production from developed to developing countries to take advantage of the cheap labour and lower labour legislations (Frynas, 2003; Vogel, 2005). Consequently, a heavy toll of reported deaths and injuries has occurred in developing countries, where a large part of the population

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<sup>54</sup> An adverse publicity surrounding corporate labour practices such as sweatshops and child labour, discrimination and gender inequalities, poor health and safety working conditions, violation of labour law in the host country and low wages which are often paid below subsistence wages is escalated (Jones *et al.*, 2007; Sikka, 2008).

<sup>55</sup> <http://www.ilo.org> (accessed on March 9, 2010).

has engaged in hazardous activities (ILO, 2010). It is claimed that the number of reported cases may be greatly underestimated due to inadequate reporting and notification systems of many countries (ILO, 2010).

In response to constant pressure from civil society groups and NGOs, corporations have increasingly pledged commitment to address workplace issues, employee's rights, freedom of associations and supplier codes of conduct (Jenkins, 2005; Vogel, 2005; Yakovleva, 2005). These codes of conduct claim to respect human rights and employee welfare, including the working conditions of their suppliers, whether at home or abroad (Frynas and Pegg, 2003). The unfavourable press coverage of poor labour conditions at factories supplying *Nike*, for instance, has persuaded the corporation to pressurise suppliers to adopt a code of conduct to improve labour practices (Vogel, 2005).<sup>56</sup>

In the realm of limited state efforts to regulate corporate behaviour, the efforts of intergovernmental organisations such as the ILO and the United Nations have attempted to fill the governance gap (see Hirschland, 2006, Korten, 2010). The ILO for instance, promoted employee rights, embodied in the Declaration on the Fundamental Principles and Rights at Work which include (1) freedom of association and the right to collective bargaining; (2) elimination of all forms of forced and compulsory labour; (3) abolition of all child labour; (4) and the elimination of discrimination in respect of employment and occupation. Besides, the Article 23 of the Universal Declaration of Human Rights states:

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<sup>56</sup> It has been argued that Nike spent more resources on monitoring and compliance in order to avoid consumer backlash (Vogel, 2005).



- I. *Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment.*
- II. *Everyone, without any discrimination, has the right to equal pay for equal work.*
- III. *Everyone who works has the right to just and favourable remuneration ensuring himself and his family an existence worthy of human dignity and supplemented, if necessary, by other means of social protection.*
- IV. *Everyone has the right to form and to join trade unions for the protection of his interests.*

Nevertheless, scholars argue that the market for virtue works imperfectly and there is an increased disparity between corporate 'talk' and 'action' (Vogel, 2005; Yokovleva, 2005). Deakin and Whittaker (2007) observe that the collective basis for industrial relations in many countries has been weakened and this is evident by the declining numbers of employees covered by collective agreements, the decline rates of union memberships and the scope of collective bargaining is reduced. Grosser and Moon (2008) on the other hand note that provision of employees information seemed to be a response to changing public expectations, rather than aiming at protecting the best interests of workers. The inherent tension in the global capitalism remains problematic as suppliers are forced to meet labour standards and borne the compliance costs (or else risk losing their contract), whilst the accrued benefits are enjoyed by developed MNCs (Vogel, 2005).<sup>57</sup>

### **2.2.2.3 Community Involvement and Development**

The increase in corporate global activities has raised questions about the responsible role of businesses to local communities (Stiglitz, 2002). Such interest has been

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<sup>57</sup> The concentration on profit which lends greatly to the accounting calculation, often considers labour as a disposable means of production that needs to be exploited in order to maximize economic surpluses (Sikka, 2008).

exaggerated by increasing conflicts and issues such as displacement of indigenous communities for business development, health and disease from products and services,<sup>58</sup> conflicts and struggles over land and environmental destruction<sup>59</sup> (Campbell *et al.*, 2006; Gray, 2002; Parker, 2005). Calvano (2008) framed the conflicts between corporations and local communities as a result of the convergence of three interrelated factors; (1) stakeholder power inequality; (2) stakeholder perception gaps; and (3) cultural context. As conflict between corporations and local communities escalates and builds to the point of action, he argued that communities often used resistance strategies such as protests, blockades and sabotage to draw attention to their plight while attempting to thwart corporate activities.

Corporations are under constant pressure to assume obligations that have traditionally been the responsibilities of the state to improve community welfare. In response to the international outcry against corporate roles in developing countries, particularly in poorly governed countries, corporations have pledged commitment to improve their practices in relation to security, sustainable development and corruption (Vogel, 2005).<sup>60</sup> Global Reporting Initiative (2008) suggests that corporations take a diverse approach in reporting on community performance and impacts. The report shows that the most common topics reported are education and training, philanthropy and charitable giving, community services and employee volunteering, total community expenditure and community engagement and dialogue. It has been estimated that in 2001, MNCs in an

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<sup>58</sup> Several industries have received public backlash with regards to their business activities – for instance, the tobacco industry has been associated with tobacco-related illness, the food and beverage industry has been blamed for the current epidemic of obesity and the drug industry has faced criticism about the harmful product side effects (Freudenberg and Galea, 2008).

<sup>59</sup> In order to understand how corporate practices influence the population's health, Freudenberg and Galea (2008) focused on three products that have attracted huge media attention, namely trans fats, Vioxx (painkiller, generic name – rofecoxib) and SUV (sports utility vehicles). They argue that corporate practices aim to maximize financial return. For instance, adding trans fats to thousands of processed foods gave the food industry more flexibility in retail markets (e.g., longer shelf lives), while magnifying cardiovascular risk for consumers.

<sup>60</sup> Nevertheless, such efforts present considerable challenges as it encompasses, for instance, repressive or corrupt regimes and community development policies (Vogel, 2005).

oil, gas and mining industry spent over US\$500 million worldwide on social community development programmes in terms of building schools and hospitals, launching micro-credit schemes for local people and assisting youth employment programmes in developing countries (Frynas, 2005).

However, corporate engagement with local communities has been doubted since there is mounting evidence of a gap between corporate 'talk' and 'actual implementation' and the impact in the real world (Frynas, 2005). Scholars argue that contribution to communities (such as donations) is not often based on 'morality' or 'responsibility' but instead, is motivated by the need to build a good image, security and profits (Achda, 2006). In order to manage pressure from communities, corporations often use corporate philanthropy to 'buy-off' or silence the opposing communities (Calvano, 2008).

Besides, scholars argue that the tools and strategies used to hold corporations to be accountable for their activities may be inappropriate for poorer and less well-mobilised communities as compared to developed countries (Newell, 2005). The obstacles include the purchasing power and size of the market which make it difficult for product boycotts; shareholder activism; tools such as codes of conduct and partnerships over specific issues which imply a degree of leverage on the part of the community, and a level of equity between business and civil society actors (Newell, 2005). These vulnerable issues, to some extent, explain the reasons why corporations choose to operate in locations where labour is cheap and natural resources are abundant, and where social and environmental impacts are inevitably large but less regulated than the home countries.

#### **2.2.2.4 Responsibility to the State**

The huge economic and political power that corporations possess has stimulated the debates on the responsible role of corporations to the host government and society

(Christensen *et al.*, 2004; Sikka, 2010). The concern is attributed to the belief that responsible practices could indeed foster social development through the provision of jobs, local investment, transfer of technology or charitable contributions to the education and health care.<sup>61</sup> In examining CSR, much of the literature leans heavily on economic theory and views profitability as a main responsibility of business (Carroll, 1979, 1991; Friedman, 1970). Nevertheless, research focusing on the role of business in fostering social and economic development is scarce, in terms of payment of taxes owed to the host governments, promoting local procurement or possible revenue gains from foreign investment (Jenkins, 2005; Sikka, 2010). Christensen and Murphy (2004) state;

*“It is ...curious ...that the debate about Corporate Social Responsibility (CSR), which has touched on virtually every other area of corporate engagement with broader society has scarcely begun to question companies in the area where their corporate citizenship is most tangible and most important – the payment of tax.”*

A number of scholars note that tax revenues, derived from corporations are an important source of revenues for any nation-state which might be used to foster economic and social development (such as improving social infrastructure, education or poverty reduction) (Jenkins, 2005; Sikka, 2010). In principle, the loss of tax revenues limits the ability of the state to improve the economic welfare of society as a whole. Hence, tax payments should be framed within the context of CSR (Christensen and Murphy, 2004; Desai and Dharmapala, 2006). Sikka (2010: 3) notes;

*“[T]axation provides a litmus test for corporate claims of social responsibility as it involves transfers of wealth and its contrived avoidance cannot easily be reconciled with claims of ethical business conduct.”*

Nevertheless, the systemic pressure to attract foreign investment often see the state offer tax holidays and as a result, the tax revenue generated by the investment is negligible (Jenkins, 2005). Bribery and corruption to the state officials also divert the

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<sup>61</sup> It has been argued that more than half of the population in developing and transition countries live in poverty, hunger and extreme deprivation. Statistics showed that 25,000 children in developing countries die each day due to hunger or hunger-related causes (UNICEF) and 81% of the population of the least developed countries (LDCs) lived on less than US\$2 a day and 50% on less than \$1 a day in 2002 (UNCTAD, 2002).

state's revenues into private pockets that might then be used for poverty reduction purposes. To compound the problem, corporations are well-placed to minimise their global tax burden. Despite corporate pledges to CSR principles, corporations develop strategies (such as tax avoidance strategies and transfer pricing) to reduce their tax obligation (Sikka, 2010). This corporate practice causes considerable losses to the country's revenue (Christensen and Murphy, 2004). It is estimated that the U.S. for instance, may be losing over \$345 billion each year due to a variety of tax avoidance schemes (Sikka, 2008). Besides, larger corporations like *Chevron* and *Texaco* were able to avoid payment of corporate taxes of more than \$8.6 billion between 1964 and 2002 by following legal transfer pricing strategies (Banerjee, 2007). Similar problems appear elsewhere; in the U.K., 220 of the 700 largest corporations were able to avoid payment of corporate taxes between 2005 and 2006 by following legal tax avoidance schemes, and Africa may be losing about \$250 billion each year, also through tax avoidance schemes (Sikka, 2010).

Critics argue that the complexity in incorporating taxation into a CSR framework is largely encapsulated in the presumed tension between the corporate fundamental objective of maximising shareholder value and its tax obligation to the state (Desai and Dharmapala, 2006, Sikka, 2010).<sup>62</sup> In such contradiction, corporations are likely to inflate profits to impress shareholders but at the same time understated reported profits for tax purposes (Desai, 2005).<sup>63</sup> It is argued that tax avoidance has become a prominent feature of corporate landscape, as it provides opportunities for managers to manipulate accounting profits so as to reduce taxable income (Desai, 2005; Desai and Dharmapala, 2006). Christensen *et al.* (2004: 37) point out that;

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<sup>62</sup> Leaning on neoclassical economic theory, tax payments might be viewed as a transfer of shareholders wealth to the state.

<sup>63</sup> The distinction between accounting profits and taxable income allows managers to mischaracterize tax savings to capital markets and to mischaracterize profits to tax authorities (Desai, 2005).

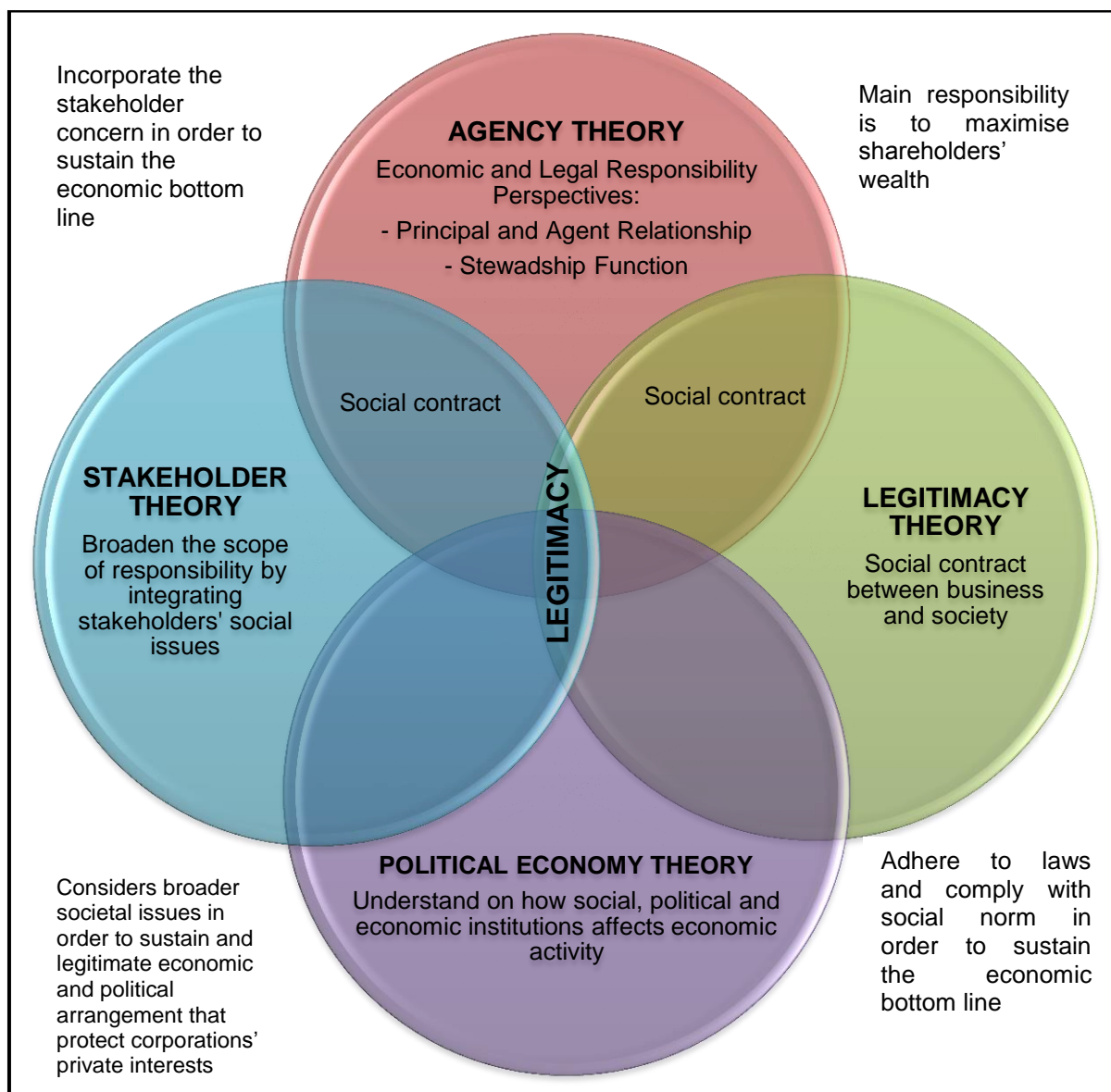
*“It is therefore curious that tax minimisation through elaborate and frequently aggressive tax avoidance strategies is regarded as one of the prime duties that the directors are required to perform on behalf of their shareholders.”*

Desai (2005) examines three high profile cases of managerial misreporting of profits and tax avoidance involving *Enron*, *Tyco* and *Xerox*. He found that the pressure to improve reported accounting profits had fostered tax avoidance and the desire to limit taxes gave rise to the manipulation of accounting profits and managerial malfeasance. Whether driven to increase shareholder wealth or the managers' desire to increase personal financial rewards, taxation draw attention to the relation between tax avoidance and the CSR construct. Hence scholars argue that taxation offers an alternative view of social responsibility; to reconsider how taxation could be understood within a larger debate on how corporations contribute to the state (Desai and Dharmapala, 2006; Sikka, 2008, 2010).

### **2.3 Theoretical Perspective of CSR**

As an interdisciplinary discourse, scholars have engaged with various sociological assumptions and theoretical perspectives in order to understand the complexities of CSR. This section examines theories that are commonly adopted in CSR research (agency, stakeholder, legitimacy and political economy theories) in order to address the possibilities and limitation of those theories to understand CSR in the context of developing countries (see figure 2.6).

**Figure 2.6: Theories Commonly Adopted in the CSR Literature**



The mainstream CSR literature, commonly based upon the functionalist framework has often used agency theory to explain CSR (Deegan and Gordon, 1996). However, there is an increase use of stakeholder and legitimacy theories to explain CSR (Deegan, 2002; Gray *et al.* 1995, 1997; Guthrie and Parker, 1990).<sup>64</sup> Stakeholder and legitimacy theories, underpinned by social contract perspective have often been used within an interpretive

<sup>64</sup> Stakeholder theory and legitimacy theory may be viewed as overlapping perspectives between political and economic assumptions (Gray *et al.*, 1995) and are all means to organisational legitimacy. However, scholars argue that these approaches are not in competition with each other; indeed, they offer different interpretations of CSR practice (Gray *et al.*, 1995).

approach in which scholars address: (1) the increased use of CSR as a public relation strategy; (2) the purpose of CSR is to discharge corporate accountability; and (3) CSR is an extension of traditional financial reporting which aims to inform the end users (Gray *et al.*, 1988, 1996). Notwithstanding growing recognition of stakeholder and legitimacy theories, these theories are criticised for their failure to address multifaceted power relations in society, conflicts, contradictory role of the state and institutional structures (Archel *et al.*, 2009; Tinker *et al.*, 1991). In an attempt to understand the potentiality of CSR, a number of scholars have employed political economy theory to address various actors and power relations that simultaneously shape CSR discourse (Guthrie and Parker, 1990; Kuasirikun and Sherer, 2004).

### **2.3.1 Agency Theory**

A number of studies in the economics and accounting literature have modelled the conditions, assumptions and implications of contracts (implicit and explicit) among the parties to various organisational relationships (Jensen and Meckling, 1976; Shankman, 1999; Watts and Zimmerman, 1986). Agency theory describes the principal-agent relationship which is based upon a 'nexus of contracts' (Jensen and Meckling, 1976; Jensen, 2002). Jensen and Meckling (1976: 310-11) argue;

*"[M]ost organizations are simply legal fictions which serve as a nexus for a set of contracting relationships among individuals. The private corporation or firm is simply one form of legal fiction which serves as a nexus for contracting... Viewed in this way, it makes little or no sense to try to distinguish those things that are "inside" the firm from those things that are "outside" of it. There is in a very real sense only a multitude of complex relationships (i.e. contracts) between the legal fiction (the firm) and the owners of labor, material and capital inputs and the consumers of output."*

From the agency theory perspective, the responsibility of corporations is to maximise shareholders' wealth, without specific legal requirement to serve the interests of non-shareholders (Jensen and Meckling, 1976). The function of corporations is therefore, to maximise profit through dynamic competition in any way consistent with the survival of



business in a capitalist economic system, while the state is responsible for managing citizen welfare (Klonoski, 1991). Friedman argues (1970: 257);

*“The great virtue of private competitive enterprise [is that] it forces people to be responsible for their own actions and makes it difficult for them to exploit other people for either selfish or unselfish purposes. They can do good – but only at their own expense.”*

In this context, the question such as ‘does the firm have social responsibility?’ is misleading since the involvement in CSR-related activities might be regarded as violating manager’s duty and weakening corporate economic prospects (Friedman, 1970).<sup>65</sup> The focus of agency theory is therefore, on developing governance mechanisms to align the interests of managers with shareholders and thereby, minimising opportunistic behaviour of managers (Jensen and Meckling, 1976). This is due to the information asymmetrical between managers and the shareholders and thus, managers tend to maximise their own utility rather than shareholders’ interests (Salazar and Husted, 2008). Hence, to minimise opportunistic behaviour in managers, agency costs are borne by shareholders in terms of offering appropriate incentives, monitoring costs and bonding costs.<sup>66</sup>

Although the agency literature offers useful insights for understanding the nature of corporation, several studies have criticised the ability of agency theory to problematize a range of CSR issues in a contemporary economic globalisation (Cooper and Sherer, 1984; Hunt III and Hogler, 1990). Scholars argue that by emphasising the economic function of corporations, the agency theory often overlooks issues such as inefficiencies, information asymmetries and incentive problems (Banerjee, 2007). When agency theory is used to understand the social context of corporations, the theory dismisses the notion that the corporation is a meaningful entity (Hunt III and Hogler, 1990). As such,

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<sup>65</sup> However, it has been argued that corporations may engage in social activities if those activities are prescribed within a law or such involvement could contribute to the maximization of shareholders’ wealth (Friedman, 1970).

<sup>66</sup> The agency costs arise due to goal divergence and information asymmetry between principal and agent.

discussion on CSR continues to be enmeshed with conflicts inherent in a capitalist system.

### 2.3.2 Stakeholder Theory

The stakeholder theory seeks to widen the scope of responsibility and accountability of modern corporations by integrating social issues that affect stakeholder groups (Carroll, 2004; Donaldson and Preston, 1995; Gray *et al.*, 1997). It is argued that by taking into account the interests and claims of non-shareholder groups, the social role of corporations is broadened beyond the profit maximisation functions (Mitchell *et al.*, 1997). Hence, attempts have been made to identify and distinguish different stakeholder groups (Charkham, 1992; Clarke, 1998). Freeman (1984) defines stakeholders as 'any group or individual who can affect or is affected by the organisation's objectives.' Charkham (1992) offers a distinction between (1) contractual stakeholders who include shareholders, employees, customers, distributors, suppliers and lenders; and (2) community stakeholders who consist of consumers, regulators, government, pressure groups, the media and local communities. However, this list may become more comprehensive as it may also cover future generations and non-human life (Gray *et al.*, 1996). The endless list further suggests that there is a wide range of groups in the social environment that can be affected by corporate policies and practices.

The stakeholder theory is drawn from the concept of organisational legitimacy which implies that corporations do exist to the extent that they are legitimate to the particular society (O'Donovan, 2002). It is made "*on the basis of an implicit social contract between society and corporations in which the right to operate as an economic institution is viewed as contingent upon upholding legitimacy*" (Shankman, 1999: 323). Therefore, corporate survival is dependent upon the extent to which the corporation operates "*within the bounds and norms of [the] society*" (Brown and Deegan, 1998: 22).

Stakeholder theory has been extensively discussed in the literature (Clarkson, 1995; Donaldson and Preston, 1995; Freeman *et al.*, 2007; Harrison and Freeman, 1999; Phillips *et al.*, 2003) and widely adopted to examine social issues (including CSR) between corporation and its stakeholders (Agle *et al.*, 1999; Magness, 2008). Three types of issues are normally addressed: (1) the societal expectations towards corporations ('social responsibility'); (2) the processes that corporations generate to meet these expectations ('social responsiveness'); and (3) the effects – or measurable results that follow the processes ('social performance') (Scherer and Palazzo, 2007; Strand, 1983). These issues are then integrated into a model, known as corporate social performance (CSP) – intended to explain the social efforts of corporations (Carroll, 1979, 1991; Wood, 1991).

Although stakeholder theory provides a useful framework to understand CSR, the theory attracted a number of criticisms (Reed, 1999). Scholars argue that stakeholders' perspective of CSR becomes problematic when the corporate interests are dominated by the interest of particular stakeholder groups or subjected to the power of external pressure groups to demand social and environmental disclosures (Gray *et al.*, 1996). Such situations may explicitly or implicitly dismiss the rights of a particular group of stakeholders, who might be seen as less important to the corporation. Mitchell *et al.* (1997) suggest that managers' perceptions of stakeholder are based on three attributes: power, legitimacy and urgency, which would determine stakeholder significance – thereby imposing the degree to which managers would give priority to competing stakeholder claims. Besides, it has been argued that balancing stakeholders' interests remains problematic as different stakeholder groups have different needs and demands (Mele, 2008).

As a result, the stakeholder theory undermines power structures in society and thereby, CSR discourse would be defined as a result of power games between the corporation

and its competing stakeholders (Scherer and Palazzo, 2007). The complexity in the stakeholder engagement or dialogue presents considerable challenges, particularly in the case of developing countries, where factors such as language, culture, education and pluralistic values could influence the process of negotiation and decision-making (Blowfield and Frynas, 2005). Apart from that, it is important to note whether stakeholders such as workers and local communities could participate in the dialogue or are dependent on the proxies such as trade unions and NGOs to speak for them. In this sense, scholars argue that stakeholder theory represents a form of stakeholder colonialism that serves to regulate the behaviour of stakeholders (Banerjee, 2008). In this context, scholars argue that CSR may simply act to legitimise existing social structures which benefit some groups at the expense of others (Puxty, 1991). Critics argue that CSR may be employed as a legitimisation tool to convince the public that the corporation is conforming to the public perception and is seen as doing the right thing (Deegan, 2002; Gray *et al.*, 1997).

Besides, stakeholders' perspective leans heavily on the instrumental interpretation of CSR and thereby, often overlooks the tensions and contradictions inherent in the relationship between corporations and society (Banerjee, 2007, 2008). Banerjee argues (2007: 28);

*“The dominant instrumental approach to stakeholder theory accommodates the fundamental economic assumptions of the theory of the firm while ignoring many social and economic conflicts between corporations and some stakeholders. If stakeholder theory is to promote genuine social good, it requires a fundamental rethinking of the purpose of a corporation and a shift away from the primacy of shareholders.”*

According to Banerjee (2007), stakeholder theory is enmeshed with tensions and conflicts inherent in the neoliberal ideology which emphasise on the maximisation of self-interest, economic growth, rationality and equilibrium.

### 2.3.3 Legitimacy Theory

Legitimacy theory and the associated notion of social contract have emerged as a dominant theory in studying social and environmental responsibilities (Gray *et al.*, 1995; Hooghiemstra, 2000). From the legitimacy perspective, corporations may engage in CSR in order to maintain congruence between corporate activities and social values, hence showing that they are conforming to the expectations and values of the society within which they operate (Dowling and Pfeffer, 1975; Gray *et al.*, 1995; Guthrie and Parker, 1989; van Staden and Hooks, 2007). Shocker and Sethi state (1973: 97);

*“In a dynamic society... an institution must constantly meet the twin tests of legitimacy and relevance by demonstrating that society requires its services and that the groups benefiting from its rewards have society's approval.”*

Critics argue that corporate survival is threatened if the society perceives that corporations have breached its social contract (Deegan 2002).<sup>67</sup> Dowling and Pfeffer argue (1975: 122);

*“[O]rganisations seek to establish congruence between the social values associated with or implied by their activities and the norms of acceptable behaviour in the larger social system of which they are a part. Insofar as these two value systems are congruent we can speak of organisational legitimacy.”*

Viewing from a system-oriented perspective of corporation and society (Deegan, 2002), legitimacy theory “permits us to focus on the role of information and disclosure in the relationship(s) between organisations, the state, individuals and groups” (Gray *et al.*, 1996: 45). In order to demonstrate legitimacy, critics argue that corporations will disclose social and environmental information; (1) when its legitimacy is threatened or (2) when an industrial disaster occurs in a location where the corporation operates (Brown and

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<sup>67</sup> Nevertheless, the societal expectation may change across time because societal bounds and norms are changing over time. Economic performance for instance, is previously considered to be the best measure of corporate legitimacy (Patten, 1992). This expectation however, has changed and corporations are increasingly demanded to demonstrate social and environmental responsibilities, not merely as a profit-making function (Heard and Bolce, 1981). The societal expectations may include repairing or preventing damage to the physical environment, ensuring health and safety of consumers, employees or those who are residing in the communities where products are manufactured and wastes are dumped.

Deegan, 1998; Deegan, 2006; Deegan and Gordon, 1996; Deegan *et al.*, 2000; Guthrie and Parker, 1989; O'Donovan, 2002; Patten, 1992).<sup>68</sup>

Despite its theoretical contribution, there are some constraints pertaining to the explanatory power of legitimacy theory. Critics argue that legitimacy theory seeks to describe or explain corporate behaviour without prescribing how corporations should behave (Deegan, 2006). Underpin by neoclassical economic assumptions, research adopting legitimacy theory often neglects the socio-economic and political context of CSR and thus, it fails to consider structural or class-based conflicts within society and unequal distribution of wealth and power embedded within a capitalist system, with the role of the state in maintaining that system (Archel *et al.*, 2009). Perhaps, this might be due to the pluralist assumptions of legitimacy theory that presuppose equal participation amongst different societal groups.

Given the existence of power and information asymmetries between corporate managers and other constituencies such as shareholders, social and environmental disclosures may be made for strategic purposes, rather than discharging the perceived responsibilities. Thus, critics argue that corporations may use CSR reports in order (1) to manipulate information to advance its own interests (Woodward *et al.*, 2001); (2) to gain, maintain or repair legitimacy (Boyce, 2008; Deegan *et al.*, 2000; O'Donovan, 2002); (3) to alter public perceptions of what constitutes an acceptable level of social responsibility (Archel *et al.*, 2009); or (4) to self-obsequiously portray a socially and environmentally responsible image irrespective of their actual behaviour (Deegan and Rankin, 1996;

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<sup>68</sup> Scholars argue that legitimacy strategies adopted by corporations depend on whether they are trying to gain, maintain or repair legitimacy in the eyes of the public (O'Donovan, 2002; Suchman, 1995). The reactive approach to corporate legitimacy may possibly take place at a corporate level (Brown and Deegan, 1998; Deegan and Rankin, 1996; Deegan *et al.*, 2002; Gray *et al.*, 1995) or at industry level (Campbell, 2000; Patten, 1992). The proactive approach on the other hand, is concerned with the social and environmental disclosure strategy, designed to prevent legitimacy concerns from arising (van Staden and Hooks, 2007).

Guthrie and Parker, 1990). As such, the grim realities of corporate activities are well-hidden beneath the glossy CSR reports.

Furthermore, notwithstanding the increased exposure of corporate activities and its consequences on society and the environment, business still continues as usual without significant threat to its organisational legitimacy. This is contrary to the expectations of legitimacy theory in which Deegan (2002: 253) argues;

*“Corporations continually seek to ensure that they operate within the bounds and norms of their respective societies, that is they attempt to ensure that their activities are perceived by outside parties as being legitimate.”*

Following the collapse and financial scandals of major corporations in the West and the socio-economic and environmental crises, corporate activities and operations are increasingly scrutinised by civil society groups and NGOs. Hence, legitimacy remains a problem for many corporations.

### **2.3.4 Political Economy Theory<sup>69</sup>**

Political economy theory views corporation as an economic entity that operates in a particular social, economic and political context (Deegan, 2002). The focus is on examining how the socio-political context may influence the social actors in a capitalist system and what information it elects to disclose (Deegan, 2002). It considers actors as agents of social change and acknowledges the interrelations of various actors and institutions that constitute social phenomenon and the dynamic of power relations that frame these relationships (Banerjee, 2007). In this context, critics argue that CSR should

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<sup>69</sup> There are two branches of political economy theory (Deegan, 2006): (1) the classical political economy and (2) 'bourgeois' political economy. Within classical political economy, social relations in capitalist systems are characterised by struggles, conflicts and unequal distribution of wealth and power in which the state plays a crucial role in maintaining that system (Gray *et al.*, 1996). This is due to the capacity of the state in influencing society activities such as work, family, education, tax rates or regulations concerning social and environmental disclosures (Archel *et al.*, 2009). In contrast, 'bourgeois' political economy theory tends to explain the power and information asymmetries that subsist between corporate managers and other constituencies including shareholders (Campbell, 2000).

be seen as a wider discursive struggle, in which the attempts are to (re)establish corporate legitimacy in the wake of environmental, consumer rights and social justice movements (Livesey and Kearins, 2002).

There are comparatively few studies which employed political economy theory to understand corporate reports (including social reporting) (Kuasirikun and Sherer, 2004; Scherer and Palazzo, 2007). Nevertheless, corporate reporting is used as a strategic marketing tool, in order to construct, sustain and legitimise economic power and political arrangements that contribute to corporation's private interests (Deegan *et al.*, 2002; Guthrie and Parker, 1990). Thus, critics argue that voluntary CSR reporting seems to be motivated by a desire to influence possible future regulation (Adams *et al.*, 1995). Guthrie and Parker (1990: 172-73) argue;

*“Political economy theory of social disclosure is both viable and may contribute toward our understanding of observed developments in national reporting practices. Corporate social disclosures have appeared to reflect public social priorities, respond to government pressure, accommodate environmental pressures and sectional interests and protect corporate prerogatives and projected corporate images.”*

Ontologically, social practice such as CSR is embedded in the complexity of human relations and shaped by dynamic interrelations between socio-economic, political and historical structures and social actors in a particular society. The dynamic interrelations between social actors, the role of the state and broader structural forces influence, facilitate and also mitigate the development of institutional structures for promoting CSR. This raises a set of questions about the relationship between power and social relations, between politics and socio-economics in the contemporary world, between states and markets and how these interrelations construct and shape CSR discourse, particularly in the context of developing countries.



## 2.4 CSR Practices in Developing Countries

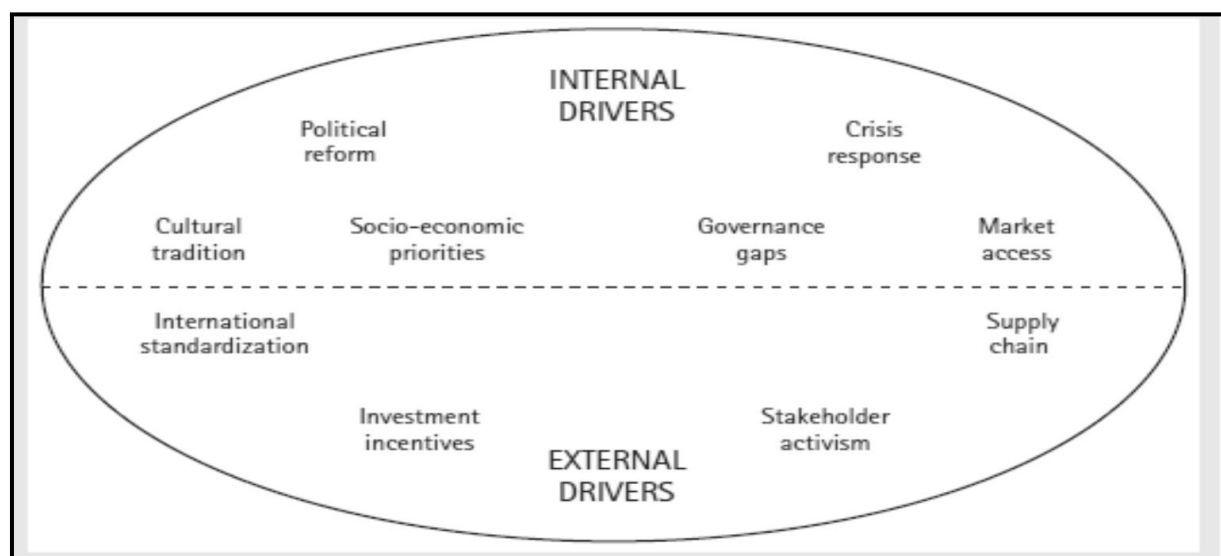
The proliferation of CSR mostly concentrates on developed countries' experiences such as the United Kingdom (Gray *et al.*, 1995); the United States (Holder-Webb *et al.*, 2009; Lindgreen *et al.*, 2009); the European Union (Adams *et al.*, 1998) and Australia (Brown and Deegan, 1998; Deegan and Gordon, 1996; Deegan and Rankin, 1996, 1997; Deegan *et al.*, 2000, 2002; Guthrie and Parker, 1989; O'Donovan, 2002). These studies are informed by competing theoretical perspectives and heavily concentrated on neoliberal market economies, in which scholars attempt to establish a link between theoretical frameworks and CSR practices in a particular national context (Adams and Harte, 1998; Guthrie and Parker, 1990).

A number of scholars argue that it is inappropriate to generalise findings from developed countries to less developed countries due to the uniqueness of each country's history, cultures, complex socio-economic and political environment, moral judgement and the alternative roles that corporations play in a particular society (Golob and Bartlett, 2007; Jones, 1999; Logsdon *et al.*, 2006; Tsang, 1998). Visser (2008) argues for the need to understand CSR from a developing country's perspective and its relation to society, economy and polity and to understand how the provision of social benefits affects society in general and the environmental wellbeing.

In order to understand CSR in developing countries, Visser (2008) identified ten major drivers which are encapsulated into internal pressures (from within the country) and external drivers (global pressure) (see figure 2.7). He argues that CSR in developing countries is deeply rooted in the cultural traditions of philanthropy, business ethics and community embeddedness. Besides, CSR is associated with socio-economic and political reform process (including democratisation, liberalisation and privatisation), which often drives (or mitigates) business behaviour towards integrating social and ethical issues. The increased attention on CSR is driven by the 'ideology' that CSR can fill the

'governance gaps' left by weak, corrupt or under-resourced governments that fail to adequately provide social services. However, there are other pressures that may constrain or enable CSR, including crises (economic, social, environmental, health-related or industrial), market access, international standardisation (CSR codes and standards), investment incentives (socially responsible investment), stakeholder activism (developmental agencies, trade unions, international NGOs and business association) and supply chain (ethical trading initiatives).

**Figure 2.7: Visser's Framework for Understanding CSR in Developing Countries**



Source: Visser (2008: 481)

Amaeshi *et al.* (2006) found that CSR in Nigeria is framed by socio-cultural influences such as communalism, ethnic religious beliefs and charitable traditions. They noted that CSR addressed socio-economic development challenges in the country, including poverty alleviation, healthcare provision, infrastructure development and education. Besides, Visser (2005) found that the values-based traditional philosophy of African humanism (*Ubuntu*) is what underpins much of the modern, inclusive approaches to CSR on the continent.

Newell and Muro (2006) provided a historical analysis and evaluation of the debate about the role of business in society in Argentina. The debates reflected and embodied the unique political history of the country and its location in the contemporary global economy. They noted that the rise of CSR followed the processes of liberalisation and exposure to global markets. However, they also noted the existence of an enabling environment for CSR practices, reflecting the long history of philanthropy and social functions performed by civil society. They stated that the Argentina financial crisis in 2001-2002 raised concern about developing CSR strategies that reflects Argentina's own development priorities.

#### **2.4.1 CSR in Asian Countries**

It is argued that business-society relations in most parts of Asian countries are influenced by the historical ties, cultures, family bonds and close state-private partnership in the economy. These underlying values to some extent could be explained by historical trajectories, the socio-economic and political background of these countries, which have considerable influence on the development of social practices (including CSR) (Bakre, 2004). It is important to acknowledge that most of these countries are newly independent countries and continue to adopt the colonial policies which shaped their nation-building aspirations. The process places varying emphasis on CSR issues that are prioritised locally. Brown (1999: 116-17, cited in Frynas and Pegg, 2003) points out;

*“It clearly is the case that in the post-colonial...world, different countries have different notions of what are the appropriate rights – if any – for their inhabitants. In parts of East Asia authoritarian regimes justify restrictions on individual liberty in the interests of economic development and, on their account, in accordance with local custom... It is difficult to see how notions of human equality could be consistent with a caste system, or with social arrangements that privilege the family rather than the individual.”*

Critics argue that cultural, social and political factors are important determinants in understanding CSR in Asian countries (Moon, 2003). The differences could be explained

by the historical attitudes to the state, long-run state-business relations and public policy designs. In a similar argument, Fukukawa and Moon (2004) found that CSR development in Japan are associated with Japanese traditions of business-society relations, the state guidance and coping with domestic and international demands to demonstrate social responsibilities.

Chambers *et al.* (2003) examined CSR in seven Asian countries and found variations in CSR practices, commonly grounded in the national specific norms of business-society relations and governance values. They found that CSR in India was not influenced by the level of economic development but has been associated with a longstanding religiously-derived philanthropic tradition and earlier period of the internationalisation of business, colonialization and imperialism. In contrast, Singapore with the highest level of economic development was ranked in fourth place in terms of CSR penetration. It has been argued that a relatively large tax base had enabled the Singaporean government to invest heavily in education and environmental protection and the country does not experience deleterious social conditions experienced in other countries.

Ahmad (2006) explored CSR in Pakistan and found that motivation to adopt CSR values and practices appeared to be moderated by the cultural and religious values and external pressures, particularly from increasing internationalisation of business. Although CSR activities are directed towards socio-economic causes such as health, education and social welfare, social responsibility appeared to be limited to corporate philanthropy which was aimed at deprived communities.

Kuasirikun and Sherer (2004) conducted a study of Thai corporations in order to gain insights of corporate social practices and critically appraise various dimensions of the annual report. They found that social and environmental legislation and severe public scrutiny do not motivate social reporting amongst Thai companies. In contrast, a

longitudinal study done by Ratanajongkol *et al.* (2006) found an increasing trend in CSR disclosure, possibly due to the promotion of corporate governance practices as a result of the 1997 economic crisis in Thailand. The themes of human resources dominated corporate disclosure.

#### **2.4.2 CSR in Malaysia**

An earlier study on CSR in Malaysia was undertaken by Teoh and Thong (1984), who found that CSR disclosures were mainly focused on human resource, followed by product/service while community and environment received the least attention. They found that Malaysian public-listed corporations during that period of study were not disclosing all of their CSR activities; one of the reasons highlighted were unstructured reporting framework for CSR. Besides, they noted that CSR disclosures were done on an ad hoc basis and there was no intention to report on a systematic and formal basis.

More recent studies indicated a rising trend in the number of corporations that disclose social and environmental information in corporate reports (ACCA, 2002; Bakhtiar *et al.*, 2009; Thompson and Zarina, 2004). However, it remains unclear on what motivates Malaysian corporations to disclose CSR-related information, given the lack of the state and societal pressure for such reporting (Azlan, 2006; Thompson and Zarina, 2004). Nonetheless, Md Zabid and Saadiatul (2002) found that family upbringing, traditional beliefs, customs and common practices in the industry determine the attitude of managers towards CSR. In contrast to developed countries' experiences, in which the development of CSR is greatly driven by the human rights and consumerism movement, CSR reporting in Malaysia is associated with compliance to rules and regulations (Azlan, 2009; Nik Nazli and Maliah, 2004).

A number of studies noted on the role of the state in the development of CSR in Malaysia (Azlan and Susela, 2007, 2008). Previous research acknowledged that corporations who are dependent on the state or with significant state's shareholding are institutionalised by the state's aspiration and vision with respect to social and environmental issues (Azlan and Susela, 2007). Besides, Haniffa and Cooke (2002) found some evidence of foreign influence on CSR disclosures.

Employee/human resource theme was noted as the most commonly disclosed information by corporations (see Azlan and Susela, 2007; Mustaruddin *et al.*, 2010; Teoh and Thong, 1984). However, increasing evidence noted a disparity between corporate talk and action. Crinis (2010) for instance, highlighted the incidence of 'sweated labour' amongst foreign workers in labour-intensive industries, a common mechanism used to preserve the country's comparative advantage. Consistent with other research findings (see Sikka, 2010; Vogel, 2005), the quest for profit (underline by a spirit of capitalism) would continue to expose labour to market forces and risks. As such, employee welfare and management issues remain problematic. Yusniyati and Azlan (2012) explored employee's understanding on CSR and found that their understanding were limited on corporate involvement in society, community and environmental activities. This could explain the low level of pressures from employees to demand responsible corporate conduct in the area of employee welfare management programme and workplace issues.

A review of literature reveals that environmental reporting continues to receive least attention by Malaysian corporations (see Bakhtiar *et al.*, 2009; Jaffar *et al.*, 2002; Yusoff and Lehman 2009). Although concerns about environmental issues were raised by corporations, details on the initiatives taken related to environmental protection and management were not provided (see Jaffar *et al.*, 2002; Yusoff and Lehman 2009). Besides, literature indicated that environmental information disclosed tended to be narrative in nature and was aimed to portray a 'good corporate citizen image' to the

public (Bakhtiar *et al.*, 2009). Whilst corporations made substantial commitments to address environmental issues, concrete actions needed to be implemented. In this context, Radiah and Rashid (2010) raised the important of closing a gap in the knowledge between corporations and stakeholders regarding the environmental protection, otherwise environmental degradation is likely to continue and the corporate 'tick-boxing' trickery would carry on concealing the real picture from stakeholders.

Contribution towards society received much attention from Malaysian corporations (Prathaban and Abdul Rahim, 2005; Hamid *et al.*, 2007); portraying a promising efforts to complement the state's initiatives to alleviate poverty. Although prior studies indicates that CSR-related initiatives were mostly targeted at deprived communities, activities pertaining to CSR were often 'seasonal' and mostly associated with religious/ethnic-related festivals<sup>70</sup> (Norhayah and Azlan, 2006; Prathaban and Abdul Rahim, 2005). Such CSR initiatives perhaps were influenced by religious values but social responsibility appeared to be limited to philanthropy (Ramasamy and Ting, 2004). For instance, donations were made to orphanages and NGOs, educational and religious institutions, or sponsoring sporting events. Yet, most of these functions involved the media and it can be inferred that the purpose of CSR is to portray a good image to the public (see Bakan, 2005). Apart from that, marketplace became the most popular theme of disclosure, particularly amongst the government-linked companies (GLCs) (Rahman *et al.*, 2011).

Besides, Haniffa and Cooke (2005) found that social reporting is used as a reactive legitimating strategy; mainly aimed to divert stakeholder attention from questionable business practices, cronyism, nepotism and close affiliation with the state. They noted that to ensure continued voice at both governmental and institutional levels, corporations adopt proactive legitimating strategies to obtain continued inflows of capital and to please

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<sup>70</sup> For example, Ramadan and Eid Mubarak for the Muslims, Chinese New Year for the Chinese and Deepavali for the Indian community.

ethical investors. In this sense, corporate reporting was used by corporate management for strategic reasons, rather than on the basis of perceived responsibilities – similar to the problem identified in developed countries (Deegan *et al.*, 2002; Lindgreen *et al.*, 2009).

A review of literature note that research on CSR in Malaysia were focused on examining the extent, nature and form of social and environmental information disclosed in corporate reports (Teoh and Thong, 1984; Thompson and Zarina, 2004), the motivation for and determinants of social reporting (Nik Nazli and Maliah, 2004), and the reliability of such information (Jaffar *et al.*, 2002) (see table 2.3). Although these studies provide useful insights on CSR-related initiatives in Malaysia, it tends to overlooks the history, power relations in society and the role of the state which has influenced the nation-building process and simultaneously, shaped governance mechanisms including CSR. Critics argue that CSR is socially constructed practices, produced, transformed, negotiated, and contested in a specific national context (Dahlsrud, 2008). In terms of methodological framework, most of these studies were predominantly functionalist in nature. Thus, the findings tend to be fragmented within the neoclassical economic theory and hence, offer limited insights on CSR (see Amaeshi and Adi; 2007; Blowfield, 2005; Korhonen, 2002).



Table 2.3: CSR Studies in Malaysia

Author(s)	Purpose/Objective	Design/Methodology/Approach	Findings
Azlan and Susela (2008)	Investigates the influence of government and foreign affiliates on CSR.	Mainstream approach: Institutional theory	<ul style="list-style-type: none"> <li>Evidences on the impact of government influence. But, the impact of foreign affiliation on CSR is not evident.</li> <li>Concludes that institutionalisation of the government's aspirations and commitment to CSR could describe CSR practice in Malaysia.</li> </ul>
		Cross sectional study: Content analysis	
Azlan and Susela (2007)	Explores the influence of the government in the development of CSR.	Mainstream approach: 'Bourgeois' political economy theory	<ul style="list-style-type: none"> <li>Government has a role to play in spearheading CSR practice.</li> <li>Employee and environmental themes are the most commonly disclosed information by those companies</li> </ul>
		Content analysis	
Bakhtiar <i>et al.</i> (2009)	Examines the quantity and quality of the environmental information disclosed.	Mainstream approach: Social issues life cycle	<ul style="list-style-type: none"> <li>The number of companies reporting on the environment increased across the period studied – consistent with the prediction of social issue life cycle theory.</li> <li>The extent of environmental reporting indicates a low quality of disclosure.</li> <li>The disclosure is ad-hoc and predisposed towards building a "good corporate citizen" image.</li> </ul>
		Longitudinal content analysis and employed self-constructed disclosure index.	
Haniffa and Cooke (2002)	Explore the influence of culture and corporate governance on CSR.	Mainstream approach	No significant relationships concerning cultural dimension, but found some evidence of foreign influence via foreign shareholding.
		Disclosure practices: Content analysis	
Md Zabid and Saadiatul (2002)	Examines factors determining the attitudes towards CSR.	Mainstream approach	Factor determining the attitude towards CSR was family upbringing, traditional beliefs and customs and common practices in the industry.
		Structured questionnaires	
Mudzamir and Norfaiezah (2013)	Determines motives and factors influencing CSR engagement.	Questionnaire and interview.	Factors – the belief that CSR can increase long term profitability and sustainability of the company and enhance company's reputation.
Mustaruddin <i>et al.</i> (2010)	Explore CSR disclosure and its relation to institutional ownership.	Mainstream approach	<ul style="list-style-type: none"> <li>The highest disclosure theme is employee relations, followed by community involvement, product, and finally the environment dimension. Most PLCs in Malaysia disclose their CSR activities in the general statement where information content is limited.</li> <li>Positive and significant relationships between CSR disclosure and institutional ownership.</li> <li>The result suggested that Malaysian PLCs are able to</li> </ul>
		Longitudinal data analysis	

Author(s)	Purpose/Objective	Design/Methodology/Approach	Findings
			attract and maintain their institutional investors while they engage in social activities.
Nor Hawani <i>et al.</i> (2011)	Assess the level of CSR disclosure and ascertain the relationship of certain company characteristics.	Mainstream approach Content analysis and the use of disclosure index.	<ul style="list-style-type: none"> <li>• The theme of disclosure has shifted from human resource to marketplace and followed by human resource, community and environment.</li> <li>• Companies are not only disclosing good news, but also bad/negative news.</li> <li>• Provides evidence that some GLCs influenced other companies' practices to disclose CSR information.</li> <li>• Company size was found to be positively significant associated with disclosure. The remaining variables were found to be insignificant in explaining the total disclosure.</li> </ul>
Nik Nazli <i>et al.</i> (2003)	Examine the nature and extent of CSR disclosures.	Mainstream approach: Legitimacy theory Content analysis	<ul style="list-style-type: none"> <li>• Found that disclosures have a public-relations bias, with a very general, 'good news' type of disclosures.</li> <li>• Consistent with prior studies – quantitative or monetary disclosures, as well as 'bad news' disclosures are minimal.</li> </ul>
Ramasamy <i>et al.</i> (2007)	Evaluating the stock performance of CSR active companies and determining a link between CSR performance and financial performance.	Mainstream approach	<ul style="list-style-type: none"> <li>• Among large firms in Malaysia, only one third can be considered to be CSR active. More than one tenth of the component companies in the KLSE-CI do not even disclose any CSR related activities.</li> <li>• However, given that disclosures are not required by law in Malaysia, and nearly two fifth of companies reporting relatively a high state of CSR provide further evidence that CSR is indeed on an increasing trend.</li> </ul>
Salmi and Reast (2012)	Describes efforts to justify and prove the relationship between measurement items and the construct.	Mainstream approach: Construction of Index Conceptualises CSR as a formative construct.	Proposed that the agenda and scope of CSR, as well as the measures used to implement it, are a manifestation of the formative construct that corporations have to operationalise in order to perform CSR better or more efficiently.
Teoh and Thong (1984)	Examine various aspects of corporate social performance, including social reporting.	Interview of CEOs	<ul style="list-style-type: none"> <li>• Companies were mainly reported in areas of human resource, product service, community work and environment. But no intention to report on systematic and formal basis and on ad hoc basis.</li> <li>• Mismatch between the level of actual corporate social involvement and the reporting of such activities. In the case of private companies, the mismatch was attributed to</li> </ul>

Author(s)	Purpose/Objective	Design/Methodology/Approach	Findings
			<p>the limited circulation of the annual reports. For public companies, disclosures of their social involvement were made in the form of passing references in the Chairman's statements, since annual reports were traditionally kept very brief.</p> <ul style="list-style-type: none"> <li>• Extent of social commitment is depending on corporate size and national origin. Far from satisfactory.</li> </ul>
Thompson and Zarina (2004)	Assess the state of CSR reporting – the extent, nature and form of disclosure	Mainstream approach Disclosure practices: Content analysis – employed Hackston and Milne (1996)	<ul style="list-style-type: none"> <li>• CSR reporting and corporate environmental reporting was in their infancy stage.</li> <li>• The low level of corporate environmental reporting were due to lack of government and public pressure, lack of perceived benefits and the widely held view that companies do not significantly impact on the environment.</li> </ul>
Yusniyati and Azlan (2012)	Explores employee's understanding on the concepts of CSR and their perceptions towards disclosure of workplace and human resource information.	Mainstream approach: Employees' views on CSR Semi-structured interview	<ul style="list-style-type: none"> <li>• Employees' understanding of CSR is more on the involvement of company in society, community and environmental activities.</li> <li>• Revealed a large potential of good positive effects for company to voluntarily disclose workplace and human resource information such as increased company image to the public as well as good recruitment policy and strategy for the company in getting and retaining talented staffs.</li> <li>• Employees did not really appreciate disclosure in annual reports as they fully utilized the information through the medium of internal communication.</li> </ul>

In order to understand CSR, social science researchers are advised to adopt an alternative framework which addresses the subjectivity of human actions, acknowledged the inherent contradictions embedded in a capitalist system, challenged power relations in society and considered the interrelations between social actors and institutional structures that may undermine the development of social practices such as CSR (Chua, 1986; Tinker and Neimark., 1987). The review of literature indicates the need for more research in the context of developing countries, warranting further investigation in the Malaysian scenario. The methodological framework developed should be able to capture the complexities and uniqueness peculiar to Malaysia.

## **2.5 Summary and Conclusion**

This chapter shows that historical development, accompanied by socio-economic and political changes over the decades have transformed the nature of corporation and subsequently changed its responsible role to the state and society. The literature indicates that corporations are created with the primary responsibility of making profits and thus, constrained corporate commitment to foster social development in terms of improving community wellbeing, safeguarding the environment, improving employee welfare and holding responsibility to the state. It is argued that the present form of modern corporations, anchored by the economic and legal views of corporation offer limited insight into the practice of CSR.

There are many complexities and considerable debate on what constitutes social responsibility *per se* due to competing theoretical approaches used by scholars. The proponents of the economic theory of the firm argue that corporation in its present form has no legal obligations to serve public interests. Its economic function is to produce goods and services at a profit; leaving aside social and environmental consequences of their corporate activities for the state and public to deal with. In contrast, critics reject this

traditional view, arguing that corporation has social objective; a wide range of obligations towards society. It is argued that corporations need supportive business environment for their long-term survival.

Whilst public outcry and consumer boycotts successfully press for corporate reforms to a certain extent, it is important to realise that voluntary codes of conduct are not legally enforceable. The cause for concerns is attributed to the increasing evidence that reveals the grim reality regarding corporate claims of 'moral' responsibilities (see Bakan, 2005; Korten, 2001) and fail to report the actual practices (Blowfield, 2006; Frynas, 2006).<sup>71</sup> In this sense, critics argue that corporate involvement in CSR may be driven by concerns to gain, maintain or repair legitimacy in the eyes of the public and nothing to do with perceived responsibilities. Chwastiak and Young (2003: 533) argue;

*“(The) negative repercussions from corporate profit maximization activities are seldom discussed in annual reports. No mention is made of the growing trash heaps of unneeded goods that result from corporate marketing efforts that encourage incessant consumption. No pictures are found of the children starving in urban and rural ghettos worldwide as a result of corporate actions that contribute to an increasing inequity in the distribution of wealth... the pollution of waters and the poisoning of our foods with pesticides are never highlighted.”*

Critics argued that CSR has become a marketing tool to portray a benevolent persona with promises of good corporate citizenship and thus, would enhance corporate reputation and image. Perhaps CSR emerges as an ideological movement intended to preserve corporate legitimacy (Detomasi, 2008) or to legitimise the increased power of corporations (Mitchell, 1989) whilst sustaining corporate profitability. Scholars argue that the development of a global CSR framework is subordinated for continuing accumulation of capital (Sikka, 2010). In this sense, the extent to which corporate reporting addressed the conflicts and contradictions inherent in the capitalist system remain pervasive (Vogel, 2005).

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<sup>71</sup> It has been reported that export oriented factories in China have falsified records used in monitoring labour standards (Blowfield, 2006).

The literature shows that scholars have adopted various theoretical perspectives to study CSR such as agency theory, stakeholder theory and legitimacy theory. Although these theories provide useful frameworks for studying CSR, it placed little attention to history, social and institutional structures, power relations, class struggles, conflicts and the contradictory role of the state. Given the inherent limitation of these theories to capture the complexities of CSR, scholars are increasingly adopting political economy theory to study CSR. The theory offers a framework for examining the contradiction, structural inequalities, conflicts and power relations which have shaped the production of CSR.

The review of literature contributes some understanding to how CSR is informed and understood in the literature. The review offers a richer appreciation of the history, socio-economic and political environment that construct and shape CSR. A closer analysis of CSR requires an appropriate methodological framework that considers the dynamic interrelations between structures and social actors which continue to shape CSR. The development of the framework should also acknowledge the role of the state in mediating CSR whilst at the same time, its contradictory role in maintaining the situation of conflict and social inequality embedded in the capitalist system. Given the complexities surrounding the issues of CSR and the uniqueness of socio-economic and political structure of developing countries such as Malaysia, a single theory framework might limit an understanding of CSR as a form of social practice.

It is argued that developing countries' institutional structures are often devised to increase capital mobility and pressure to attract foreign investment to foster social and economic growth. This may influence the development of institutional structures for promoting CSR and indeed, shape social relations in a capitalist society. In the case of Malaysia, the developmental state theory provides a framework for understanding the contradictory role of the state and the development of institutional structures that enable or constrain CSR. It also acknowledges the role of the social actors, the systemic

pressures and the influence of global and local structures which have simultaneously shaped CSR practices. The discussion continues in the following chapter.

## **CHAPTER THREE**

### **METHODOLOGICAL FRAMEWORKS**

#### **3.0 Introduction**

Chapter 2 argued that a proper examination of the development of CSR could be better accomplished by understanding the nature and purpose of corporation. The chapter drew attention to changes in the socio-economic and political environment, which transformed the corporation into its modern form and simultaneously impacted the continuing demands for CSR. Scholars have used a variety of theories such as agency, stakeholder and legitimacy theories to understand CSR and have broadened the scope of responsibility by incorporating stakeholder concerns into business operations. However, the mainstream CSR research is commonly based on the economic and legal view of corporations, which offers limited insights into the practice of CSR. Thus, the research in the field of CSR has rarely examined the socio-economic, political, historical and institutional structures that shape social responsibility, particularly in the case of developing countries.

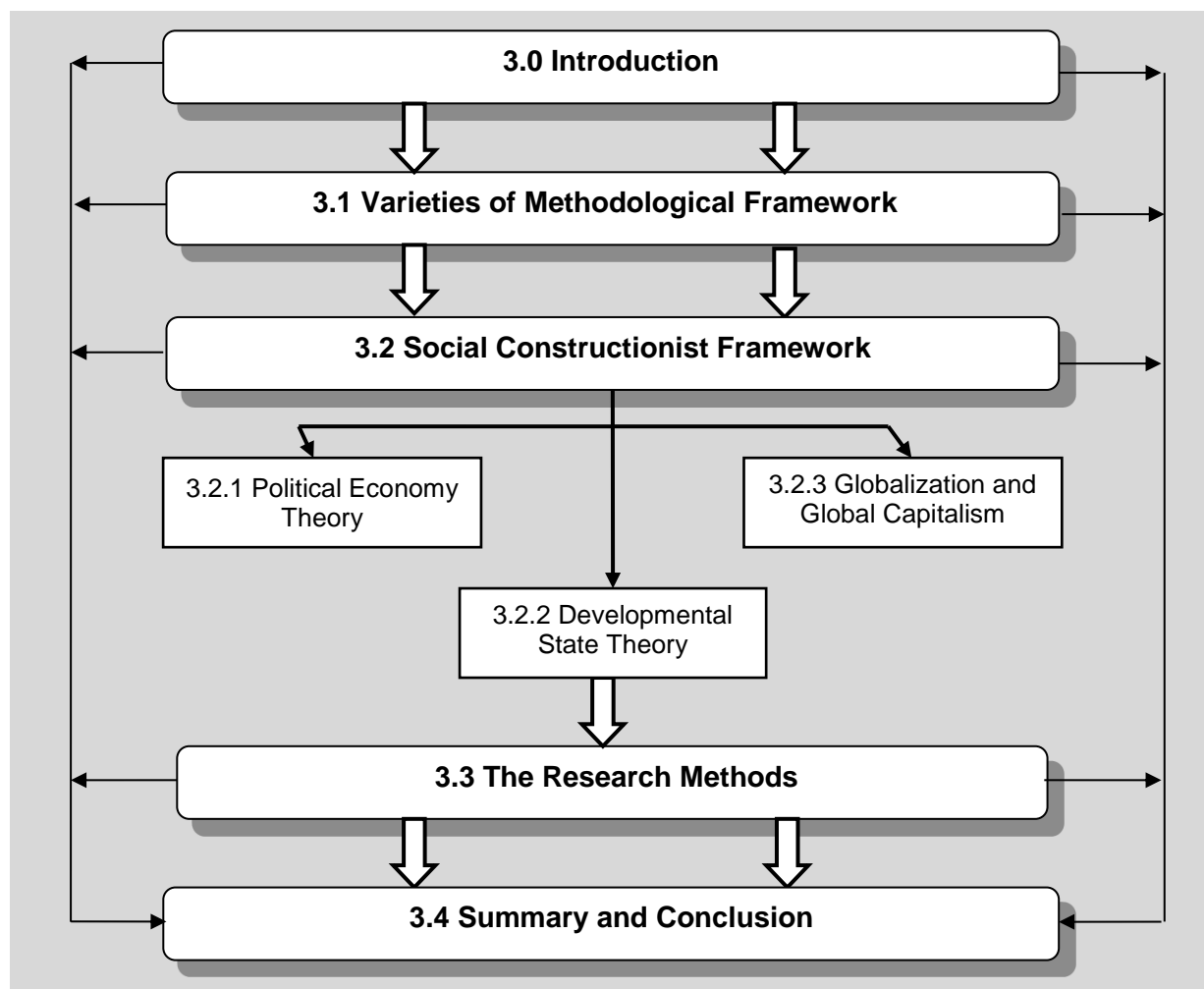
This chapter develops a methodological framework to this study. It argues that the framework should acknowledge the peculiarity of history, social, economic and political environment that have simultaneously enabled or constrained CSR discourse in a contemporary economic globalisation. The dynamic interrelations between structures and social actors influence the economic, political, ideological and social views on CSR and simultaneously shape the attitude and behaviour of actors towards committing CSR. Therefore, it is necessary to consider the dialectical relationship between structures and social actors that continually advance or undermine the development of CSR in the context of developing countries.



It is argued that the worldwide expansion of global capitalism has shaped social relations in a capitalist society, particularly the role of the state in maintaining the situation of conflicts and desire to attract foreign capital (Sikka, 2008). The corporate quest for profit undermines public policies and weakens regulatory mechanisms, which has contributed to major environmental degradation, suppression of human rights, violation of employment standards and social injustice. Hence, in order to understand CSR discourse and its potential, it is important to examine and problematize the conflicts and antagonisms inherent in a capitalist society (see Gallhofer and Haslam, 1997; Tinker and Neimark, 1987; Tinker *et al.*, 1991).

In doing so, the chapter examines methodological approaches to social sciences and provides a rationale for the chosen methodology in conducting CSR research. This includes an explanation of the social constructionist epistemology that underpins the study and the interpretive approach that has shaped social inquiry of the observed phenomenon. The social constructionist perspective is considered as the appropriate 'map' and 'lens' to 'locate' the present study, within which appropriate theoretical perspectives are insinuated. This study insinuates the political economy theory, developmental state theory and global capitalism as theoretical lenses to explain CSR in Malaysia. This chapter is organised as follows (see figure 3.1): section **3.1** examines varieties of methodological frameworks commonly used in social science research and explains why some frameworks are inappropriate for understanding CSR. Section **3.2** develops theoretical framework based on social constructionist approach. In line with the postulate of structure-agency framework, CSR is examined as a system of social relations and invoked issues about the nature of reality being investigated (how the reality is constructed, maintained or legitimated) (Armstrong, 1998). Section **3.3** presents the research design, highlighting the data collection methods and data analysis techniques. Finally, section **3.4** concludes the chapter with a general summary and conclusion.

Figure 3.1: Structure of Chapter 3



### 3.1 Varieties of Methodological Frameworks

In the field of accounting and management, researchers have borrowed from a variety schools of thought in order to advance their research (see Neu and Taylor, 1996; Sikka and Willmott, 1997; Tinker, 1984). This has led to the adoption of a wide variety of theoretical approaches to understand social practice (including CSR) and offer a richer appreciation of the possibilities and limitations of addressing social issues in a contemporary global phenomenon. The conventional view of social science research is based on a philosophy of social engineering as a basis of social change and emphasises the importance of understanding societal order, equilibrium and society (Burrell and Morgan, 1979). In this context, social practice such as CSR is viewed as having a

concrete reality and the role of the individual is passive and independent of social context. However, a number of scholars argue that social practice is socially constructed, embedded in a dynamic interrelation between actors and structures (Chua, 1986; Tinker and Neimark, 1987). It is argued that social reality “*is emergent, subjectively created, and objectified through human interaction*” (Chua, 1986: 61). Nevertheless, humans are a product of, and are controlled by, the prevailing social structures and institutions (Burrell and Morgan, 1979).

In order to understand social phenomena and its complexity, this study examines paradigms propounded by Burrell and Morgan (1979) that may aid researcher in crafting a research tool to advance research inquiry. Burrell and Morgan (1979) have sensitised various schools of thought and provide competing insights into the socio-economic and political context of organisational structures and the issue of social practice such as CSR. The four distinct paradigms which can be used for the analysis of social theory are discussed next: (1) functionalist; (2) interpretive; (3) radical humanist and (4) radical structuralist.

The *functionalist approach* rests upon the premise that the social world has a real, concrete existence and a systematic character and is directed toward the production of order and regulation (Hassard, 1991). The ontological position is dominated by a belief in physical realism – the claim that social reality exists objectively and independently from human experiences (Ardalan, 2007) and that it has a “*determinate nature or essence that is knowable*” (Chua, 1986: 606). The approach employs a ‘hypothetico-deductive’ or ‘scientific’ model and utilises a complex statistical technique to explain universal causal connections (Chua, 1986). The researchers believe that a scientific model provides the basis for structuring and ordering the social world, which is similar to the structure and order in the natural world (Ardalan, 2007). It is problem-oriented and characterised by a

concern for providing explanations of the status quo, social order, consensus, social integration and cohesion, solidarity, satisfaction and actuality (Burrell and Morgan, 1979).

The *interpretive approach* views the social world as an emergent social process that is shaped through the actions of the actors (Burrell and Morgan, 1979). Chua (1986: 615) states;

*“[The] aim of the interpretative scientists is to enriched people’s understanding of the meaning of their actions, thus increasing the possibility of mutual communication and influence. By showing what people are doing, it makes it possible for us to apprehend a new language and form of life.”*

The interpretive approach views the structure as being more akin to a *“template on experience that assists individuals in conceptualizing and dealing with environmental complexities”* (Baker, 1977, cited in Baker and Bettner, 1997: 306). On this premise, structure is viewed as being inseparable from the social actor’s mind and thus, it is important to understand the meanings that structures have for social actors (Baker and Bettner, 1997). The focus is on explaining the ‘shared’ common sense belief of a real social world and the ways in which they are socially constructed and negotiated (Hopper and Powell, 1985).

The critical approaches (*radical humanist* and *radical structuralist*) view society as being *“composed of contradictory elements and pervaded by systems of power that lead to inequalities and alienation in all aspects of life”* (Hopper and Powell, 1985: 450). From a critical standpoint, the world is seen as symbolic, mediated and shaped by material conditions of domination in which language or communication is used as a medium for repression and social power (Chua, 1986). The approach is concerned with an understanding of the social and economic world that contributes to the critique of the status quo. It attempts to bring changes in social order through a change in the modes of cognition and consciousness (Dillard, 1991). The critical approach seeks to explain

social change by highlighting the significance of subjective human agents as key factors whilst retaining the significance of structure (Laughlin, 1987). The underlying assumption of critical approach is to emancipate humans from all forms of domination that is encapsulated within the capitalist system of production and exchange (Leysens, 2008). The radical structuralist emphasises on the fundamental conflicts that are both a product of the industrial structures and economic relationships (for instance, surplus value, class relationships and structures of control) (Hopper and Powell, 1985). In contrast, radical humanist focuses on the individual consciousness, alienation and the way it is dominated by ideological influence through language (Hopper and Powell, 1985).

### **3.1.1 Methodology in Perspective**

Previous discussion highlights that CSR is not simply a technical phenomenon but intertwined with the dynamics of the wider political, socio-economic and historical context of a particular country. Ontologically, social practice such as CSR is embedded in complex human relations and is shaped by dynamic interrelations between institutional structures and social actors in a particular society. Looking from an epistemological point of view, CSR should be studied within the social context that takes into account the subjectivity of social actors, the dialectical power relations in society and the institutional structures which formed the basis of the emergence and subsequent development of particular social practice (Johnston, 2005; Miller, 1994). However, social world contains human consciousness of thoughts and beliefs, of ideas and concepts, of language and discourse, of signals and understanding among human beings, which requires an understanding of social reality (Chua, 1986; Tinker and Neimark, 1987). Social reality is constructed by social actors rather than a concrete structure external to humans (Easterby-Smith *et al.*, 2002).

In functionalist studies, scholars assume implicitly or explicitly that reality can be measured, through a one way, value-free mirror by developing theoretical models (Baker and Bettner, 1997, Burrell and Morgan, 1979). Ontologically, the functionalist approach has a realistic and objective conception of reality (Hopper and Powell, 1985). The approach has experienced widespread acceptance in social science research for many years, including studies on CSR (Aupperle *et al.*, 1985; Belkaoui and Karpik, 1989; Carroll, 1999; Cho *et al.*, 2008; Cho *et al.*, 2012; Clarkson *et al.*, 2008; Lim and Tsutsui, 2011; Ness and Mirza, 1991; Ullmann, 1985; Wood, 1991). Various hypotheses are formulated and scholars have examined cost-benefits analysis of CSR, in which the relationship between CSR and corporate financial performance is investigated (Adams *et al.*, 1998; Deegan and Gordon, 1996; Gray *et al.*, 2001; Hackston and Milne, 1996; Jensen, 2002; Margolis and Walsh, 2003). CSR issues are determined and integrated into a model, known as corporate social performance; designed to explain social reality (Carroll, 1979, 1991; Wood, 1991).

However, the functionalist approach has been extensively critiqued (Baker and Bettner, 1997; Hopper and Powell, 1985; Milne, 2002; Tinker and Neimark, 1987). Critics argue that the functionalist approach has a limited capacity to explain social phenomena which is embedded in complex human relations (Chua, 1986; Tinker and Neimark, 1987). A number of scholars have challenged the extent to which the functionalist approach can capture and address the contradictions and complexities of CSR in a contemporary global phenomenon (Puxty, 1986; Vogel, 2005). The complexity of global business and enduring relationships between individuals, groups, organisations and states have challenged the adequacy of functionalist approaches to capture power relations, globalisation, the role of the state and complexities and conflict inherent in the socio-economic and political context of an organisation and the society in which they operate (Chua, 1986). For this reason, the functionalist approach may provide an inappropriate approach to understand the subjectivity of action and the meaning of CSR that is shaped

by the complex interrelations between social actors and structures.<sup>72</sup> Chua (1986: 601) argues;

*“Mainstream accounting is grounded in a common set of philosophical assumptions about knowledge, the empirical world, and the relationship between theory and practice. This particular world-view, with its emphasis on hypothetico-deductivism and technical control, possesses certain strengths but has restricted the range of problems studied and the use of research methods.”*

In a response to the critiques of the functionalist approach, scholars propose a social constructionist perspective which views social reality as a product of ongoing constructive or interpretive acts (Baxter and Chua, 2003). The social constructionist perspective has strength in its ability to analyse social phenomena, embedded in a complex human relation by adopting various socio-economic and political stances. Based on social constructionist perspective, this study adopts an interpretive approach for analysing social theory (as devised by Burrell and Morgan’s framework). The next section outlines how social constructionism and interpretive approach inform research investigation.

### **3.2 Social Constructionist Perspective**

Social constructionist approach views social actors as operating in different kinds of societal contexts; influenced and being influenced by dominant norms and conventions, governing social relations, and how systemic pressures that frame these complex interrelations between actors are structured and institutionalised (Berger and Luckmann, 1971; Burr, 1995). From this perspective, understanding of social phenomenon is based on continuous sense making, interpretation and reproduction in which interactions between social actors in a particular societal context produce social reality. This raises a

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<sup>72</sup> For instance, Talcott Parsons’ structural-functionalism considers social structures in explaining social phenomenon but it is a ‘problem-solving’ approach and it is status quo oriented (Cox, 1976 cited in Leysens, 2008: 21). The approach is used to explain and facilitate the end goal of industrial societies: maximum productivity and societal stability.

set of questions about the interrelation between power and social relations, between politics and socio-economics in the contemporary world, between states and markets and how these dynamics interrelations further (re)construct and shape CSR discourse.

From a social constructionist perspective, the social world is built by social actors and becomes understood through a series of discourse (Kallio, 2007). Discourse<sup>73</sup> is a common means of understanding and making sense of the world (Dryzek, 1997). Discourse constitutes both subjects (identities) and objects of understanding (knowledge<sup>74</sup>). The term discourse refers not only to the things thought, written or said about a particular subject (texts, speeches and conversations) but also in the form of practices, structures, rules and norms that operate in particular institutional and social domains (see Foucault, 1977, 1979). Discourses are embedded in a language and the use of language shapes what becomes known as the truth or social reality (Fairclough, 2003). Critics argue that the manner in which language is structured determines how experience, perception and reality are structured (Burr, 1995).

Underlining the important role of language in constructing social reality, this study assumed that the contents of the corporate annual report or social reporting represent a series of discourses (see Phillips *et al.*, 2004). The concern is attributed to how corporations use organisational language (for instance, through social reporting) to create meaning and shape commitment towards CSR. The importance of analysing CSR discourses has been highlighted by Burchell and Cook (2006), who argue that CSR advances in interrelations between business and society. Hence, CSR discourse has wider implications as it opens up a broader debate about the social responsibilities of modern corporations and their role in society. However, scholars contend that discourse

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<sup>73</sup> Campbell (2006) defines discourse as a system of language, concepts and rules of logic through which people communicate.

<sup>74</sup> According to the social constructionist perspective, knowledge is constructed and sustained through social processes and practices through language (Schwandt, 2000).



can be influenced and altered by different social actors and situations and structures, as well (Burchell and Cook, 2006). In this context, social constructionist approach accentuate the importance of understanding historical and societal domain to understand how meaning is created and constructed (specifically through language) in a particular national context. The understanding of interplay between social actors and structures in the process of (re)producing and (re)shaping social practices would offer another perspective in explaining CSR.

Underpinned by a social constructionist perspective, this study adopts an interpretive approach to the study of CSR in Malaysia. The interpretive approach emphasis on understanding individuals' subjective experiences (Bryman, 2007; Burrell and Morgan, 1979) and to understand how that phenomena is meaningfully produced, experienced and maintained 'as it is' in the social world (Baker and Bettner, 1997; Covalleski and Dirsmith, 1990). To find meaning in a particular social action requires an understanding of such action which, in turn, needs an interpretation of that action (Schwandt, 2003). However, the examination of social practice at the micro and macro level requires an appreciation of theoretical perspectives that takes into account the history, socio-economy and political modes of explanation over time in terms of dynamic interplay between actors and structural influences. Llewellyn (2003: 690) argues;

*“Social landscapes also encompass diverse structures and processes with different natures and origins – at individual, group, organizational and societal levels of analysis (e.g. nation states, capitalist enterprises, cultural groups and individual motivations)... Attempting to capture [social phenomena] with reference to a single monolithic “theory” is usually misguided. Insights from several theories at different levels of analysis are appropriate for social landscape.”*

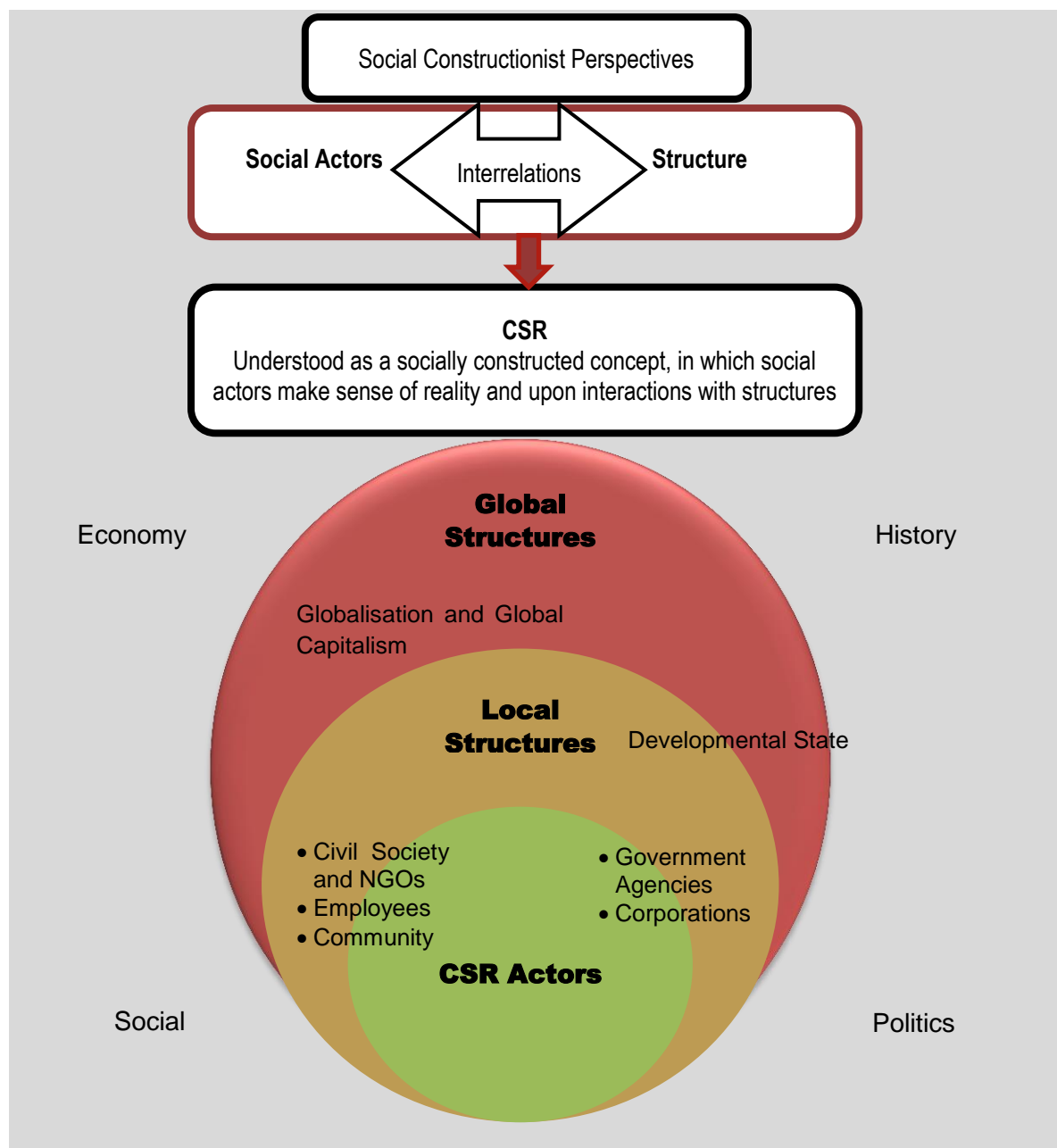
The complexities and peculiarities of developing countries including Malaysia pose the question of the appropriateness of a single theory to conceptualise CSR in a contemporary era of globalisation. In line with the postulate of structure-agency framework, this study insinuates the political economy theory, a developmental state

theory and global capitalism as theoretical lenses to explain systemic and dynamic pressure that may enable or constrain the development of CSR in Malaysia (see figure 3.2).

The political economy theory provides a useful tool for this study as it considers actors as agents of social change and acknowledges the interrelations of various actors and institutions that constitute social phenomenon and the dynamic of power relation that frame these relationships (Banerjee, 2007). The theory put emphasis on the historical development and contemporary behaviour of socio-economic and political institutions to understand social order and functioning (Armstrong, 1998; Tinker and Neimark, 1987). Moreover, the contradictory position of the state in acting on behalf of the capitalists has seen its economic policies and institutional structures often devised to facilitate and enable the conditions for capital accumulation and economic growth in both domestic and international economy (see Harvey, 2005).

Therefore, in order to understand the notion of the state as a social construct and an aspect of statehood peculiar to Malaysia, this study considers a developmental state theory as a theoretical lens to capture some of the prevailing issues surrounding developmental states such as Malaysia which may advance (or mitigate) the development of CSR. Besides, in the integrated global economic environment, CSR practices could not be studied in isolation from the global economy because there is an external structure that continues to shape the socio-economic and political environment which favours the power of capital. An understanding of dynamic interrelations between social actors (such as corporations and the state) and broader structural forces requires some understanding of the intensification of globalisation and the extent to which it enables or constrains responsible business practices.

Figure 3.2: The Structure and Agency Framework and CSR



### 3.2.1 The Political Economy Theory

The political economy theory considers the interrelations between various social protagonists and broader structural forces that are inextricably intertwined within a specific planned system of production that underpins capital as a social relation (Armstrong, 1998; Tinker, 1980). The focus is on analysing conflicts, power relations in society, exploitation and dynamic interrelations between social actors, institutional structures, history and the role of the state in contemporary global capitalism (Adams *et*

*al.*, 1995; Cooper and Sherer, 1984; Tilt, 1994; Tinker and Gray, 2003; Tinker and Lowe, 1980). The theory has been increasingly adopted in accounting researches to understand how power relations shape corporate reporting and further construct, sustain and legitimise economic power and political arrangements that contribute to the corporation's private interest (see Armstrong, 2007; Cooper and Sherer, 1984; Deegan *et al.*, 2002; Guthrie and Parker, 1990). It aims to provide insights on understanding fundamental issues concerning the nature and distribution of wealth or surplus values, social justice, political ideology and environmental degradation.

In a capitalist society, social relations are organised around power and knowledge that constitutes dynamic forces in production, distribution and consumption of resources. Within capitalist modes of production, contradiction arises over the distribution of surplus value as it involves the endemic exploitation of potential 'means of production' (material and labour) by capitalists in its continuing effort to maximise profit for capitalists (Bryer, 2000). The exploitation is masked by neoliberal agendas and apparent use of accounting as a bureaucratic tool to embed the overriding objective of productivity into the social functioning of the capitalist firm (Bryer, 2000; Tinker, 1980; Tinker and Neimark, 1987). The apparent domination of shareholder capitalism and the use of accounting practices by capitalists as a means of managing social conflict related to economic production and exchange reflect the capacity of those dominant social groups in society to control social reality (Armstrong, 1998; Lehman, 1992; Tinker, 1982).

To address power relations in society, Gibson (1998: 5) argues that scholars need to consider a range of questions related to: who owns the means of production, the land and mineral rights?

*"Who works and who is unemployed? Who distribute the goods? Who profits from production and distribution? Who makes the decision in the land, the workplace, the school and the home? Who has the power to portray inequality as the natural order of things or socially necessary?"*

Hence, to understand social order and functioning, political economy incorporates historical understanding of social structure and social (re)production, including agents and forces of change (Cox, 1981). Looking from a social constructionist perspective, structures are socially constructed process, in which Payne (2005: 17) affirms, *“persistent social practices, made by collective human activity and transformed by collective human activity”*. Cox (1981) views structure as a determinant of human action, the result of ‘collective human activities,’ and whilst the structure influences and constrains human action, it could be transformed by human action. In addition, the role of agency is embedded in the structure of political economy (Cox, 1981). The consideration of both agency and structure in political economy allows researchers to examine the interrelations between economics, politics and history within which economic and political activities take place (Banerjee, 2007).<sup>75</sup>

A historical structure consists of a particular configuration of forces that shape opportunities and impose constraints (Banerjee, 2007). According to Cox (1981), history is an ongoing process characterised by change across time and place and in the interrelation of economics and politics. It is argue that by differentiating different modes of social relations, it is possible to consider how power in social relations may give rise to particular social forces (Cox, 1987: 4). Therefore, historical structure necessitates contextualisation of interrelated forces that interact in a structure: material capabilities (accumulated resources)<sup>76</sup>, ideas (understood as intersubjective meanings and collective images of social order)<sup>77</sup> and institutions (means of stabilising a particular order)<sup>78</sup> (Cox, 1981).

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<sup>75</sup> However, the agency is ‘bound up’ with structures – the system provided opportunities but imposed constraints as well (Banerjee, 2007).

<sup>76</sup> Consist of natural resources, technological and organisational capabilities required to transform natural resources into productive and surplus-generating outputs (Banerjee, 2007).

<sup>77</sup> Refer to commonly held notions about social relations in a particular context (Banerjee, 2007) and ‘contested ideologies about alternative social orders’ (Payne, 2005: 17).

In borrowing the concept of hegemony<sup>79</sup> from Gramscian, Cox (1981: 135-38) argues that hegemony is historically constituted through three spheres of interrelated activity: the relations between social forces centred on modes of production, forms of state and world orders<sup>80</sup> (see figure 3.3). Hegemony represents a form of social order, internalised as a 'common sense' in which a certain way of life and thought (such as ideas, beliefs, interests and interpretations) is dominant (Cox, 1981; Leysens, 2008).<sup>81</sup> The changes in the modes of production give rise to particular social forces which in turn, change the structure of the state that would consecutively alter the problematic nature of the world order (Cox, 1981: 138).<sup>82</sup>

Nevertheless, the state itself is a form of social relations, through which certain forces of production and hegemony are expressed (Bieler and Morton, 2003). The form of state rests upon the underlying configurations of social forces and thus, the hegemonic interactions between state and society could be understood by drawing upon the concept of 'historic bloc'<sup>83</sup> and by broadening a theory of the state (Bieler and Morton, 2003; Cox 1981: 135-8). The historic bloc represents the basis of consent for a certain social order, in which the hegemony of a dominant class is created and re-created in a web of

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<sup>78</sup> Means of stabilising and perpetuating a particular order and reflects the power relations (Cox, 1981:136). Institutions consolidate material power and ideas and are themselves the products of particular historical contexts and subject to similar forces of change (Banerjee, 2007).

<sup>79</sup> Hegemony filters through structures of society, economy, culture, gender, ethnicity, class, and ideology. It has been argued that when contradictions arise between these forces, the 'fit' comes apart and the potential for transformation (within the limits of the possible) and a counter-hegemonic challenge presents itself (Leysens, 2008: 3). As Gramsci argues, consciousness and ideology play a paramount role in the determination of economic structures, and civil society is controlled by consent rather than plain force.

<sup>80</sup> The world order represent phases of stability, conflict and how alternative forms of world order might emerge (Cox 1981: 135-8).

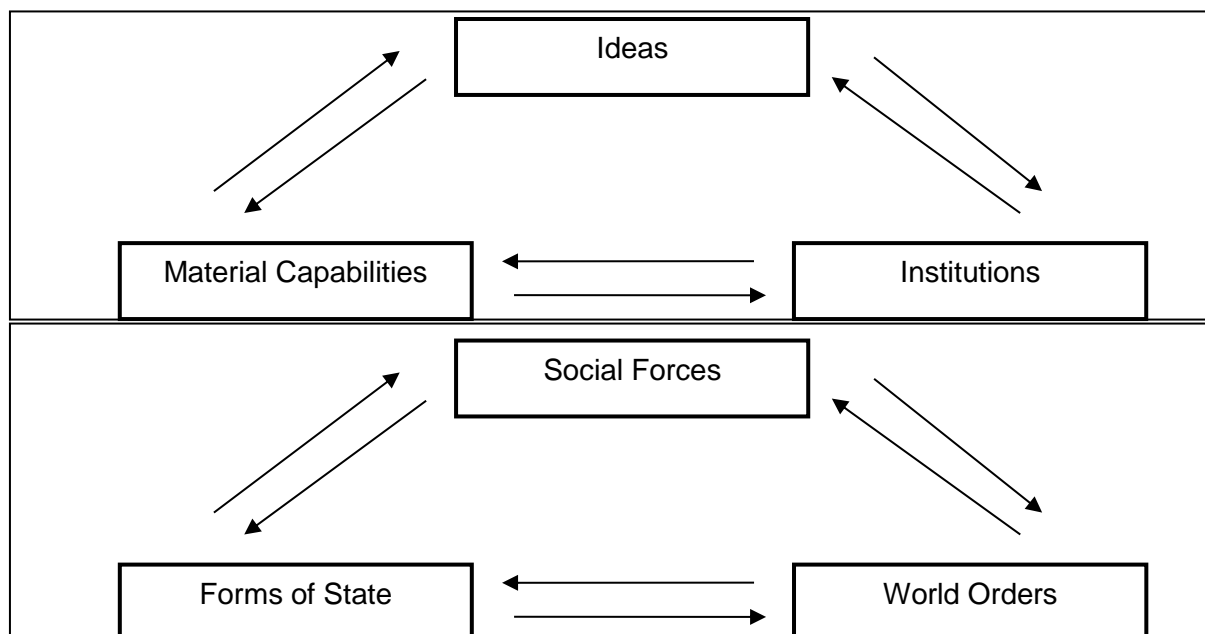
<sup>81</sup> For Gramsci, hegemony represents tools of control and power employed by the dominant class and a form of resistance and emancipation for subordinate groups (Simon, 2013). The focus is on discursive methods of domination that are employed to control and manipulate the reality of everyday human experience (Gramsci, 2005). Hegemony is understood as an expression of broadly-based consent, manifested in the acceptance of ideas and supported by material resources and institutions (Bieler and Morton, 2003).

<sup>82</sup> At the world order level, hegemony was maintained to manage the balance of power. Hegemony is the specific arrangement or 'fit' between material capabilities, ideas and institutions that point towards the absence or presence of hegemony (Leysens, 2008).

<sup>83</sup> Historic bloc refers to the way in which leading social forces within a specific national context establish a relationship over contending social forces. It is a political alliance between social forces represented by classes or fractions of classes (Bieler and Morton, 2003).

institutions, social relations, ideas, politics and ethics (Leysens, 2008). Hence, different forms of state are the result of particular historical blocs, derived from a study of the state-society complex blend of coercion and consent (Cox, 1981).

**Figure 3.3: Cox's Formulation of the Historical Structures**



Source: Cox (1981: 138)

In this context, scholars argue that a theory of the state is needed in order to understand the contradictory role of the state in a contemporary era of globalisation (Tinker, 1984). The state is a form of capitalist social relations, in which its actions and policies shape the basic relation of conflict and contradiction in a capitalist society (Armstrong, 1998). For this reason, it is necessary to situate CSR within the context of the country's political economy, as the state's socio-economic policy is intimately related to its domestic setting. In order to understand the complexities faced by developing countries such as Malaysia in promoting CSR, the next section insinuate the developmental state theory.

### **3.2.2 The Developmental State**

Previous discussion demonstrates that social relations are shaped by various socio-economic, political and institutional forms and arrangements. It examines political economy theory and underlines the complex interrelations between various social protagonists and broader structural forces in order to understand social practices such as CSR in its social context. This section considers developmental state theory to understand contradictory position of Malaysian state in the contemporary era of globalisation.

There are many varieties of state (Dunleavy and O'Leary, 1987; Jessop, 2005) and types of capitalism (Hall and Soskice, 2001; Whitley, 1999). The 'varieties of capitalism' theory argue that each state possesses distinct social structure, dominant issues, institutions and interests and shaped by its unique history and cultural tradition (Hall and Soskice, 2001). In fact, the varieties of capitalism and the state are intersected (Hall and Soskice, 2001). Hence, it is important to recognise that whilst the social and institutional contexts would explain social relations, different types of society are characterised by different model of socio-economic and political forms and arrangements.

The model of capitalist system range from the beliefs that free markets best encourage domestic growth and investment, to ideologies that feel the state control of economic activity can help redistribute wealth and reduce income inequality (Detomasi, 2008). In the neoliberal market economies (such as in the U.S., the U.K., Canada and Australia), the economists believe that free market provides the best incentives for delivering social and environmental objectives via mandated regulatory mechanisms and market arrangements to promote financial transparency and managerial accountability (Conley and Williams, 2005; Hall and Soskice, 2001). In contrast, the coordinated market economies (such as France, Japan and Germany) feature a high level of state involvement in the economy, often via mechanisms of mixed corporate ownerships or



completely state ownership particularly business operating in the strategic industries (Detomasi, 2008). The attention focuses on the stakeholder interests through detailed disclosure of social and environmental risks and impact as evidenced by requirements in some European countries (Conley and Williams, 2005).

Nevertheless, research has often focused on neoliberal states and identified its features (Harvey, 2005). The neoliberalism opposed all forms of state intervention beyond those required to secure private property arrangements and commercial activities. It emphasises the belief that free market mechanisms is the optimal way of organising economic activity that would lead to economic growth, prosperity, equality and efficient allocation of resources. Liberalisation, privatisation and deregulation of domestic markets, dismantling trade barriers and removing exchange contract has become the core economic agendas in the neoliberal state which aimed to encourage global capital mobility (Harvey, 2005; Jessop, 2002). Indeed, neoliberal agenda is promoted and entrenched into the conditionality and lending policies of international financial institutions (such as the World Bank and IMF) (Hirschland, 2006).

The dependency of neoliberal state on capital to facilitate economic growth and social development has seen the state becomes the key market player, continuously fostering the conditions for capital accumulation whilst regulating institutional structures to promote social order (Harvey, 2005; Korten, 2001). Nevertheless, the contradictory position of neoliberal states in maintaining and legitimating the economic capital whilst at the same time, preserving their own legitimacy (through the establishment of regulatory framework that protect their citizens) has become increasingly apparent (Cooper and Sherer, 1984). Critics argue that political lobbying, sponsorship of the prominent politicians, trade associations, media and think-tanks inevitably threaten the state' policies and guidelines intended to strengthen the country's domestic economy and to protect its citizen (Sikka, 2008). Hence, the ability of the states to regulate economic activity and govern

corporation is limited by political and economic constraints. In this context, scholars argue that neoliberal states are enmeshed within the capitalist crisis, in which the interests of the economic elite are secured through the private property rights (Harvey, 2005).

The complexities of neoliberal states in developed countries also enlighten the operation of developing countries that privileges capital accumulation at both domestic and international levels to stimulate economic growth and social development. Although developmental states feature different characteristic in terms of its unique history, socio-economic and political environment, these countries also faces complexities and contradictions to regulate and balance the interests of capital with broader societal issues associated with promoting social and political stability. The different development trajectory underwent by developmental states necessitates understanding of market ideology and strategy, contradictory role of the state, increased power of corporations and pressure of economic globalisation which simultaneously impacted upon the demands for CSR. Besides, historical structure, politic, economic and social diversity that characterised developmental states, has informed their socio-economic and political forms and arrangement in a contemporary era of global economy.

Historically, most developmental states have been colonised and have since, integrated into the global capitalist economy. Although these states are politically independence long ago, some of them are yet, trapped within the colonial division of labour; experience marginalisation, debt and poverty despite abundance of natural resources (such as gold, diamonds and petroleum); and the present of powerful local elites that continue to influence and shape market governance, social relations and political environment. A number of developmental states often lag behind, in terms of economic and social development because these countries often lack technologies capabilities and financial resources to stimulate economic growth. As a consequence, these states have to rely on

domestic-led growth and foreign investment to industrialise, create employment and generate state revenues and have to depend on loans, aid and grants in order to deliver public goods.

Critics argue that developmental states did not operate in a vacuum separated from the market or society but was “*embedded within them in ways that enhanced its capacity to govern the complex interdependencies of the political economy of capitalism*” (Jessop, 2005: 37). In order to promote and facilitate necessary conditions for capital accumulation, developmental states establish various forms of state administrative/bureaucratic modes of socio-economic regulation to plan and coordinate industrial development, the subsidisation of social and physical infrastructure costs for capital, institutional mechanisms to control wages, direct state investments to initiate and support the industrial drive and social and political controls meant to consolidate and extend central policy control (Robison *et al.*, 2005).

Nevertheless, in a contemporary era of global capitalism, developmental states are often under pressure to build their hegemony within the terms of a neoliberal model of capitalism. These states are encouraged to open up their economies through privatisation, liberalisation and deregulation of domestic economy which are central to the neoliberal ideology (see Harvey, 2005). This process highlights the contradictions between the processes of internationalisation and nationalisation of capital and at the same time, to counterbalance the pressure from capitalist expansion and the need to legitimise social and economic relations. Hence, it could be observed that the expansion of capitalism across the globe, underline by neoliberal agenda not only shape the socio-economic and political structures of some developmental states but indeed, is also conditioned by them.

Thus, whilst developmental states focus on the economic policy and strategies that increase foreign investment and secure capitalist economic growth, such condition has an adverse effect on the state's ability to address the socio-economic and environmental impact of contemporary global capitalism (see Harvey, 2006). The state regulatory frameworks are often directed to facilitate the expansion and accumulation of capital and thus, created a regulatory vacuum (governance gap), particularly in respect of governance of business operation. Bakan (2005: 22) argues;

*“To remain attractive, whether to keep investment within their jurisdictions or to lure new investment to them, governments would now have to compete among themselves to persuade corporations that they provided the most business-friendly policies. A resulting ‘battle to the bottom’ would see them ratchet down regulatory regimes – particularly those that protected workers and the environment – reduce taxes and roll back social programs, often with reckless disregard for the consequences.”*

The process of economic development in fact, neglects the role of economic growth within broader economic, social and political context. This has contributed to social and environmental problems in most developmental states where millions of farmers or indigenous people are being pushed aside, marginalised and displaced for the sake of development, environmental destruction, poverty and violations of labour and human rights, to name a few (Bakan, 2005; Banerjee, 2007, 2008; Korten, 2001; Vogel, 2006). For this reason, international civil society groups and NGOs demand heightened state role in overseeing business operations and imposing controls on capital.

In response, some developmental states have established institutional structures and regulatory reforms to address socio-economic issues, environmental regulations and other social protections for the benefits of its citizen. Yet, the states often lack the institutional capacity to implement laws and regulations, but although they are willing to enforce laws to promote public accountability and social responsibility, their actions are

constrained by economic imperatives and desire to attract capital (Ruggie, 2012).<sup>84</sup> In this context, scholars argue that the socio-economic affairs of many developmental states are no longer within their control but subordinated to allow the free mobility of capital<sup>85</sup> (see Sikka, 2008).

In an integrated global economic environment, CSR in Malaysia cannot be studied in isolation from the global economy because there is an external structure that continues to shape the socio-economic and political environment which favours capital accumulation.<sup>86</sup> An understanding of the interrelations between social actors and broader structural forces requires some understanding of the intensification of global capitalism and the extent to which it enables or constrains the development of CSR. The next section considers the notions of globalisation (through economic imperialism) and global capitalism that gave birth to the developmental state capitalist system (including Malaysia).

### **3.2.3 Globalisation and Global Capitalism**

It could be observed that the expansion of capitalism is constituted through a 'neoliberal historical bloc', in which the capitalist systems have achieved hegemonic status (Cox, 1981; Leysens, 2008). A number of scholars have analysed the dialectical development of capitalism in the historical periods and categorised its expansion into the eras of mercantile, colonialism and imperialism (see Hoogvelt, 2001; Robinson, 2004). According to Hoogvelt (2001) and Robinson (2004), the formation of the European

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<sup>84</sup> <http://www.internationalrelations.com/2012/09/30/ruggie-governing-transnational-corporation/> (accessed on June, 2013)

<sup>85</sup> There is a growing disparity in term of the levels of control between the developed states and the developmental states. The developed states are relatively in a strong position via MNCs and the world financial institutions and do have a considerable degree of control over their political economy (Harvey, 2006). In contrast, many developmental states are not in a similar position as some of these states are impoverished, indebted and dependant on foreign aid and foreign direct investment to stimulate economic growth.

<sup>86</sup> The manner in which Malaysia has responded to the bargaining power of comparatively footloose capital in the contemporary era of globalization is discussed in Chapter 4.

mercantile capitalism during the 1400s saw the expansion of capitalism into the Latin Americas, Africa and Asia. The industrial revolution in the 1700s witnessed the rise of the *bourgeoisie* and the creation of European empires (through colonial arrangement) to ensure a continuous flow of economic resources to support European industrialisation. This period brought the colonies into an “*expanding and intensifying network of economic exchanges*” and thus, marked “*vigorous geographical extension of capitalism*” (Hoogvelt, 2001: 19). In the 20<sup>th</sup> century, global capitalism has been developed along the line of neoliberal ideology and has become internationally competitive; ceaselessly hunting for the endless accumulation of capital (see Arnold and Sikka, 2001; Hirschland, 2006).

The expansion of capitalism is facilitated by economic globalisation that has further intensified the economic, social and political interactions across borders (Harvey, 2011; Hoogvelt, 2001). In order for capitalism to survive, capitalists extend their operations globally by conquering markets, eliminating competition and securing cheap sources of raw materials and other factors of production (Bakan, 2005; Detomasi, 2008; Saunders, 1995; Sikka, 2008; Smith, 2008).<sup>87</sup> Critics argue that capitalists have integrated production and distribution networks and during the process, “*create an international bourgeoisie alongside an exploited international proletariat*” as they transcend across borders (Hoogvelt, 2001: 57). The corporations have become the vehicle of modern capitalist economy, rivalling the market in its importance, with institutional characteristics that define the modern form of corporations (see Bakan, 2005; Korten, 2001).

A number of scholars argue that globalisation is purely economic<sup>88</sup> but for others, globalisation is viewed as a social phenomenon and dialectical relationship between the

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<sup>87</sup> As Marx observed, capital is always in “*need of a constantly expanding market for its products, chases the bourgeoisie over the whole surface of the globe. It must nestle everywhere, settle everywhere, and establish connections everywhere*” (Marx, 1977: 224, cited in Arnold and Sikka, 2001).

<sup>88</sup> According to Kolodko (2003: 212), “*globalization signifies the formation of a liberalized and integrated worldwide marketplace for goods and capital and the emergence of a new international institutional order facilitating the expansion of production, trade and financial flows on a worldwide scale*”.

economic, social, cultural and political autonomy of the host country (Cox, 1981). Globalisation has integrated both developed and developing countries into a global economic system and further shaped the interrelations between corporate powers, globalisation and the state (see Sikka, 2008). In fact, most economic relations between states are channelled by corporations as the key agents in the global economy (UNCTAD, 2003). This is evident from the increasing number of MNCs with subsidiaries operating around the world; from about 7,000 in 1970 to 60,000 in the year 2000 with foreign assets amounting to USD\$2 trillion (Luo, 2002; UNCTAD, 2003). In addition, these MNCs account for between 25% and 30% of the world's gross national product and the total value of their production exceeding the world exports (Dunning and Sauvant, 1996).

Nevertheless, the rapid pace of corporate globalisation raises questions about governance, focusing on how corporations should be governed and what responsibility they have towards larger systems where they operate (Bakan, 2005; Banerjee, 2007; Demirag, 2005; Detomasi, 2008; Frederick, 2006; Korten, 2001; Sikka, 2010; Vogel, 2005). The cause for concern highlighted in a number of studies is the insufficient global requirements that govern the cross-border corporate economic activities, where the gap between economic globalisation and governance mechanisms have, in fact, become much wider (Gallhofer and Haslam, 2006; Zedillo, 2012). Critics argue that corporations are not only roaming the world to exploit natural resources or labour, but also seeking countries with a 'comparative advantage' to displace social and environmental cost<sup>89</sup> and manoeuvre 'regulatory arbitrage'.<sup>90</sup> Although attempts to reform governance mechanisms of corporations were observed since the beginning of the century, they appear

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<sup>89</sup> A number of scholars argue that corporations locate manufacturing operations in developing countries where the enforcement is weak, partly to escape the stringent (and expensive) environmental regulations imposed in developed countries (Woods, 2007).

<sup>90</sup> The increased mobility of capital enabled corporations to exploit regulatory differences between states by (re)locating (or threatening to relocate) their production facilities in countries with more favourable regimes (Jenkins, 2005).

inadequate to address social and environmental issues stemming from the intensification of corporate globalisation. Hence, the governance gap poses challenges to the state autonomy to enforce institutional structures that inculcate social responsibility and public accountability.

Besides, it has been argued that the capitalist system has simultaneously restructured society according to the capitalists' aims, in which Kristensen argues (2011: 393);

*“Capitalism was institutionalized in highly different ways in different countries, each with its particular composition of former status groups and relations and balances between princes, feudal lords, peasants, labourers, the military and civil society, and cities and the land. In terms of which groups benefited and suffered in their struggles for social space through capitalism and markets, each country is an individual story. This is also why different societies seem to invent highly diverse types of institutions during the early phases of capitalism as a way to foster, support or civilize capitalism itself.”*

The expansion of global capitalism in developmental states necessitates explanation of state (re)formation within social, economic and political changes of the long-term restructuring of capitalism (see Hoogvelt, 2001; Robinson, 2004). The processes of capitalist modes of production and state formation could be linked to colonial institutions, discourses, values and practices, and there are always tensions and contradictions between capital accumulation and societal welfare. At the centre of the process are the dynamic power relations between dominant actors, institutions, society and global structure that influence and shape market governance and social practices such as CSR. The next section discusses the development of state-led capitalism, in which the purpose is to promote the interests of corporations as means of accelerating growth, and hence, has created condition for capital accumulation.

### **3.2.3.1 State-Led Capitalism**

Changes in the capitalist modes of production driven by neoliberal agenda have underpinned the state form and social relations. This has simultaneously shaped the



country's institutional frameworks that are often devised to facilitate the expansion of capital and thereby, has impacted upon the demand for CSR. To understand the development of state-led capitalism, Jessop (2005: 21) introduces four dimensions of state intervention in the economy: (1) economic policy that secures capital accumulation through export-led industrialisation; (2) social policy – the production and reproduction of labour power which involves repression of organised labour; (3) main scale (if any) on which the economic and social policies are politically mediated and historically specific; and (4) mechanisms used to retain capital accumulation and social cohesion – which include modes of governance.

It has been argued that dynamism of global capitalism requires state intervention in the economy, which takes numerous forms including the nationalisation of basic industries, provision of essential services, state subsidies to private investment and close private-public partnership (see Chung and Kirkby, 2002). A number of scholars have examined the role of the state in economic development and documented extensive evidence of direct government intervention in the economy, particularly in Asian countries (see Hoogvelt, 2011; Uddin and Hopper, 2001; Wickramasinghe and Hopper, 2005). Critics argue that economic, political and personal ties bound the relationships between state and business, in which comprise and condition the development process (see Kohli, 2004). Underhill and Zhang (2005: 60) argue;

*“[The] interactive relationship between state officials and market actors constituted the crucial political and institutional underpinning of economic success. The on-going process of political transition and economic liberalization... saw dominant private actors gradually establish their collective interests over the state and increasingly capture public policy arenas through close business-government connections.”*

In most Asian developmental states (including Malaysia), the state is often the arbiter and controller of regulatory systems, thereby giving bureaucrats and politicians considerable power to pursue personal agendas and facilitate necessary conditions for

capital accumulation at both national and international level (see Wickramasinghe and Hopper, 2005). In this context, scholars have defined Asian developmental states as highly centralised, state-led systems of capitalism, with public and private enterprises being integrated and predatory state power through various 'clientelist' mechanisms (cronyism) that simultaneously defines the country's socio-economic and political forms and arrangements (see Birch *et al.*, 2001; Robison *et al.*, 2005). The political pressures, jockeying for party advantage and pressures for political survival lead politicians and their agents to intervene into the business affairs (Wickramasinghe and Hopper, 2005). This structure not only empowers the powerful elite but also impairs the institution for advancing public accountabilities and CSR, since the goal is geared towards preserving the interests of the elite and the endless accumulation of capital. Critics argue that the state would continue to support the interests of capital via corporations because of its structural dependency for corporate tax revenue to finance public goods, generating employment and investment or direct financial benefit accruing to the state officials or political parties (Garvey and Newell, 2004).

It is argued that institutional structures of developmental states are shaped by broad pattern of governance: the ways, in which interests are structured, power is exercised and how economic policy choices are made (Underhill and Zhang, 2005: 60). This raised questions about the underlying relationship between market and state, between power and social conflict, between politics and socio-economic change and how these interrelations further construct and shape CSR discourse. Since institutional frameworks are often devised to facilitate the expansion of capital, the ability of the state to promote responsible business practices becomes constrained as economic rationality prevails. Hence, the important question to address is how the state gain and maintain its hegemony and further structure and shape the market and social relations, which in turn, influence the demand for CSR (see Cox, 1981; Harvey, 2011; Hoogvelt, 2001).

The hegemonic order can be explained in terms of historic bloc and social cohesion within a form of state, in which a particular ideology is socially institutionalised through language and power-knowledge relations. Critics argue that to maintain hegemony in the social order, the states often utilised a repressive and authoritarian regime, in which 'common sense'<sup>91</sup> (developed through a historic bloc) is mobilised to gain consensus in society (see Cox, 1981; Leysens, 2008). The institutions of the state are indispensable to the maintenance of social cohesion and identity (Cox, 1983), thereby securing the conditions necessary for continuing capital accumulation.

Within such an order, institutional structures contribute to the articulation of hegemonic ideology wherein certain policies are considered as 'the best' way to manage social and political life and hence, has shaped and masked social reality over competing worldviews.<sup>92</sup> The acceptance of certain prevailing common sense enables the dominant group's elites to exercise and legitimise their social and political control in society. Thus, the hegemonic interactions between the state and society are maintained, not only through coercion, but through establishing consensus (see Cox, 1981; Leysens, 2008).

In the case of Malaysia, it could be observed that the national developmental model is characterised in large part by the race-based social order as the country struggled to overcome the legacy of British colonialism. Besides, the reliance of foreign capital has shaped its policies and actions which in turn, impacted upon the development of governance mechanisms. Critics argue that the establishment of modes of governance are not to manage the consequences of development but are undertaken in parallel to

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<sup>91</sup> It has been argued that common sense emerges from a struggle or confrontation among social forces, ideologies, philosophies and general conceptions of life.

<sup>92</sup> To problematize the state's role in facilitating capitalist accumulation, five aspects of modes of regulation are identified which subsequently impacted upon the demands for CSR: (1) the wage relation – reproduction of labour and capital-labour relation; (2) the enterprise form and competition; (3) the money and credit forms which requires a strong state and/or close coordination between banking and industrial capitals mobilized behind the national economic strategy; (4) the architecture of the state, forms of state economic intervention and the role of the state in securing institutional integration and social cohesion; and (5) the regimes governing international economic and political relations (Jessop, 2005: 21).

developmental projects, in response to specific social and economic problems (Haggard, 2005). Hence, the development of CSR could be seen as part of this contested terrain as the states are enmeshed with dilemmas and contradictions inherent in the capitalist systems.

### **3.2.4 A Connective Summary**

Social constructionist perspectives provide a useful framework for understanding the relevant dimensions of institutional structures whilst emphasising the subjective role of social actors in the production and reproduction of CSR. From social constructionist perspective, CSR is understood as a socially constructed concept, in which social actors make sense of reality and themselves. The contradictory roles of the state, the pursuit of profits, the purpose of production and power relations inherent in a capitalist system have contributed to the ways in which CSR is constructed, produced, transformed, negotiated, and contested in social interactions in both domestic and global arenas by social actors. Hence, it is crucial to understand the constructions of CSR within particular socio-economic, political and historical domain because these institutional structures set a context for different roles and identities for corporations by emphasising different values, practices and priorities.

The changing business and political landscape over the years has attracted social discontent, instigated by increased concern about the growth of corporate power, which subsequently impacted upon the demand for CSR. The increased exposure of irresponsible corporate practices and misconduct often revealed a 'governance gap' between corporate 'talk' and 'action'. The global quest for peace and prosperity, environmental degradation, climate change and global warming, poverty and inequality, child and sweat labour are some examples of crisis; the prolonged conflict and antagonistic nature of the capitalist system. In response to various pressures,

corporations increasingly produce social and environmental information in order to legitimise corporate behaviour (see Guthrie and Parker, 1989; van Staden and Hooks, 2007). However, the development of CSR as an institutional realm could be seen as a counter hegemonic response to increase public pressures for the need to address the 'governance gap' created in a contemporary economic globalisation.

Therefore, in examining the structural constraints of the present system, this study insinuates the political economy theory, developmental state theory and global capitalism in order to understand the contradictions faced by social actors in framing the demands for CSR. The concept of embedding CSR into the fabric of national context is fitting from both Gramscian and political economy perspective. This study sees both Gramsci concept of hegemony and capitalist crisis as complementary and offers a flexible approach to integrate structural changes in a capitalist system and tools for an analysis of CSR discourse. The growth of the capitalist firm – the corporation in its modern form, is facilitated by the state apparatuses which presumably favour the extant mode of production and the dominant group in society (see Cooper and Sherer, 1984). Critics argue that the contradictory roles of the state are reflected and sustained in the capitalist mode of production and through various forms of state administrative/bureaucratic modes of socio-economic regulation (Puxty *et al.*, 1987).

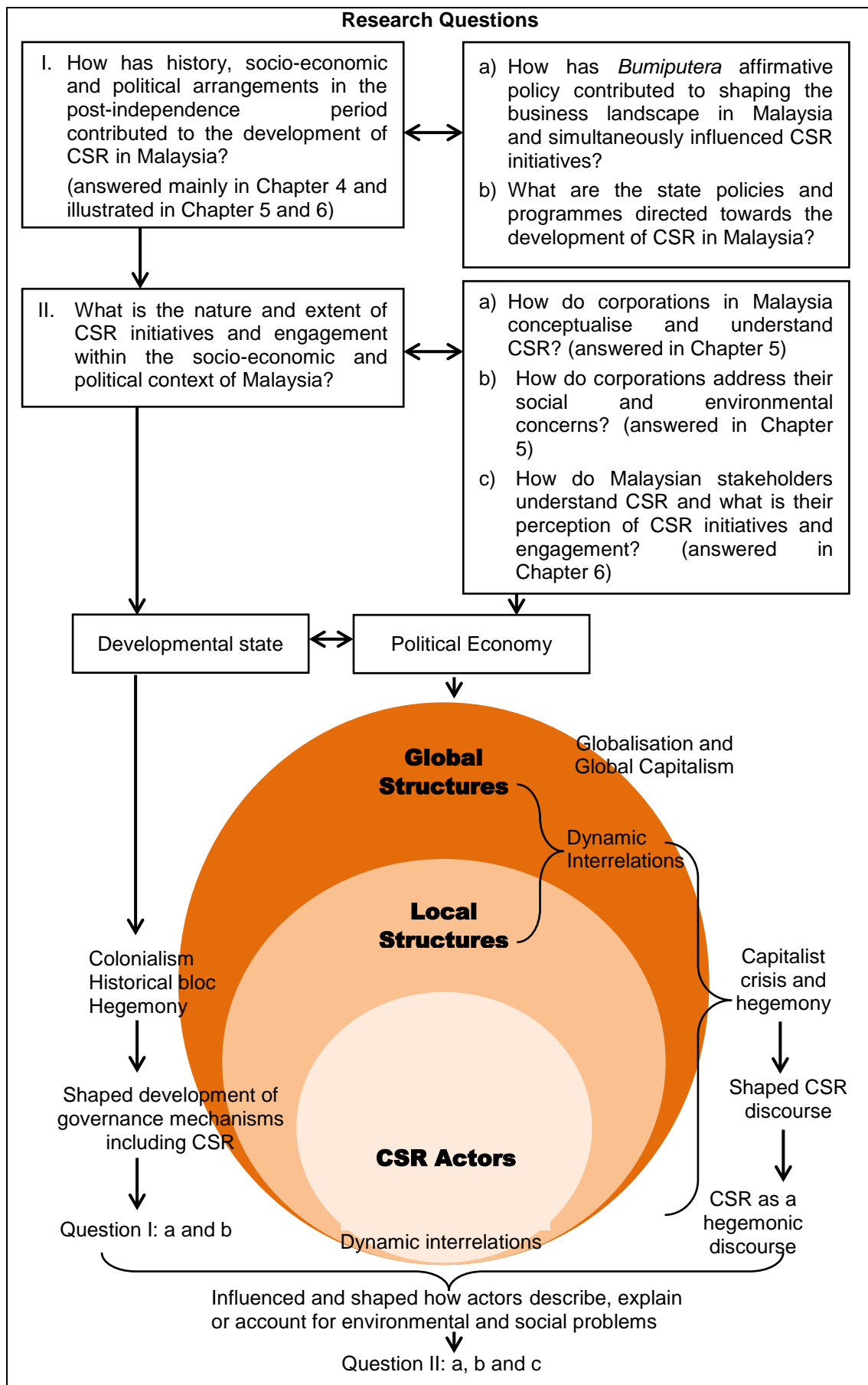
Nevertheless, the understanding of CSR not only necessitates the conceptualisation of conflict and antagonisms inherent in a capitalist system, but also the interconnections and interrelations between the social and technical aspects of accounting that disguise social realities and legitimise capitalist system. The socially constructed nature of accounts represents a capitalist ideology that emphasises, for instance, the surplus value, a managerial hierarchy of control, individual accountability and governance system. The concepts of capital accumulation and conflict are crucial to understand the inequalities in capitalism and the used of corporate reporting as rhetorical devices to

mask social reality (Cooper and Sherer, 1984; Guthrie and Parker, 1990; Tinker and Neimark, 1987). The processes are abetted by the role of developmental state that favours capital.

Besides, Gramsci's concept of hegemony is useful for understanding the ways in which dominant classes in capitalist society secure consent from the rest of society before attaining political power and continually maintains that power through a continuation of leadership. In Gramsci's conception, a social group manifests its hegemony through both 'domination' and 'intellectual and moral leadership' (Gramsci, 1971: 57). This study postulates that CSR is a hegemonic strategy employed by proponents of global capitalism in response to crises of legitimacy and public pressures. The development of CSR is enmeshed within the logic of capitalism: the pursuit of profit; and crises and contradictions inherent in the capital accumulation process. Through language used, actors participate in the ongoing negotiation and discourse on the meaning of CSR. In this way, policies serve to mask contradictions at the level of production, in terms of social and environmental issues.

Figure 3.4 shows the theoretical approach adopted in this study. Within social constructionist framework, scholars use texts and secondary data, interviews and case studies to examine the mechanisms influencing the development of socio-economic and political phenomena that shape and transform social reality such as CSR (see Burgoyne, 2009; Leca and Naccache, 2006). The following section describes the research design and method used in this study.

Figure 3.4: The Theoretical Approach



### 3.3 Research Design and Methods

Previous section argues that CSR is embedded in particular interrelations between broader structures and purposeful actors that continually produced and shaped CSR over time. Hence, it is necessary to situate CSR within the context of Malaysian political economy, as the country's socio-economic policy is intimately related to its domestic and global setting and thus, understand on how CSR is produced, reproduced or modified along capitalist structures. This study attempts to frame these interrelationships within the context of Malaysian historic blocs and the particular configurations of social forces upon which state power ultimately rests.

#### 3.3.1 Data Collection

This study intends to gain multiple insights of potentialities and limitations of CSR from various stakeholders' viewpoints within Malaysian context. In order to enrich understanding on how CSR practices have been developed and become institutionalised in Malaysia, the researcher visited Malaysia to conduct interviews and to collect documentary evidences on this subject-matter.

Based on criterion based sampling (or purposive sampling) (Ritchie and Lewis, 2009), data were collected from a broad cross-section of stakeholders involved. The criterion based sampling process commenced with targeted participants, through the identification of a group of research participants whose selection was based on judgement sampling (Honigmann, 1982) and their willingness and ability to participate. The first group of respondent is aimed to include corporate managers from 30 largest public-listed corporations on the Bursa Malaysia's Main Board.<sup>93</sup> Having identified these samples, the

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<sup>93</sup> Deegan *et al.* (2000) argue that the public nature and size of corporations listed on the stock exchange is believed to be sufficient for them to attract public attention and to face potential threats to their legitimacy. Besides, CSR in Malaysia is still in a developing stage (Thompson and Zarina, 2004) and by focusing on public listed corporations, this study attempts to shed some light on how CSR is being understood and informed in the Malaysian context.



researcher had to work hard to get access and interviews. The interview request letters were sent by hand to potential respondents and follow-up emails and phone calls were made to ensure prompt response as the researcher faced time constraint. However, in most of the cases, corporations declined to participate, apologising for not having time due to finalising annual accounts<sup>94</sup> or not having enough staff to 'entertain' the researcher, and etcetera. Besides, a number of corporations were unwilling to participate due to the claimed confidentiality and secrecy, although assurance about confidentiality and the promise of anonymity is given. In some cases, corporations preferred a telephone interview and asked interview guides to be emailed beforehand. However, when the date and time were officially set, the telephone interviews need to be postponed for a number of reasons. Finally, the study ended up with only one corporation who agreed to participate in the interview.

Besides, the study also attempts to gain an interview with other stakeholders. The participants were chosen purposefully because of their knowledge of CSR (which is the focus of this study), expertise, position of authority and their ability to participate. The research participants can be categorised into six groups of respondents: (1) corporate personnel; (2) representatives of government agencies and statutory bodies; (3) NGOs; (4) civil society groups; (5) employee representatives; and (6) representatives of the community. Based on the sampling methods used, data were collected from a total of 20 interviews (see table 3.1).

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<sup>94</sup> The field work was done in November 2010 – January 2011 and during that period, corporate managers claimed that they were busy due to finalising budgets and accounts.

**Table 3.1: The List of Groups Interviewed**

Group	Sub-Group	Interviewee	Number of Person Interviewed	Gender	Ethnicity
Corporations	Telekom Malaysia	Senior Manager: Headquarters	1	Female	Malay
		Manager: State-Operational Level	3	2 Males 1 Female	Malay
Regulators, Government Agencies and Statutory Bodies	Department of Occupational Safety and Health	Director	1	Male	Malay
	Ministry of Human Resource	Senior Officer	1	Male	Malay
	Bursa Malaysia	Senior Officer	1	Female	Malay
	Inland Revenue Board	Senior Officer	1	Female	Malay
	Human Rights Commission of Malaysia	Senior Officer	1	Male	Malay
Non-Governmental Organizations (NGOs)	Business Council for Sustainable Development in Malaysia	Committees Member	2	Male Female	Foreigner Indian
	Education and Research Association for Consumer (ERA)	Committees Member	1	Female	Indian
Civil Society Groups (CSO)	Malaysian Trade Union Congress	Committees Member	1	Male	Indian
Employees		Employee Representative	4	2 Males 2 Females	Malay
Community		Community Representative	3	Male	Malay
<b>Total</b>			<b>20</b>		

Due to lack of interview data and time constraints,<sup>95</sup> this study incorporates secondary data and has to depend on the information disclosed in the corporate annual reports or social reporting.<sup>96</sup> Nevertheless, the selection of corporations was done after the fieldwork and the researcher has returned to the UK. Corporate reports are chosen because they provide an opportunity to explore how corporations participate in the construction of CSR through

<sup>95</sup> Under the scholarship rules, field work in Malaysia could only be conducted for a maximum period of three months, otherwise a penalty is imposed as the student would be in breach of contract.

<sup>96</sup> Gray *et al.* (1995) contend that annual reports are the main official and legal document, which are produced on a regular basis and act as an important place for the presentation of a corporate's communication within political, social and economic systems.

their public communication. The sample cases were selected based on the availability of annual reports or social reporting on the corporate website for a period of more than ten years, in order to capture the construction of CSR over time. The final sample included another two corporations; making total number of corporations selected in this study was three. These three sample cases represent a wide area of business activities, has global operations and feature differences in terms of the shareholding structures: (1) GLCs; (2) Family-owned; and (3) MNCs. The chosen sample cases would help in gaining understanding on how the institutionalisation of certain ideology influenced and shaped governance mechanisms, which in turn, influence and shape social actors' understanding and production of CSR in Malaysia. The analysis would provide insights on how CSR is produced and negotiated at a domestic and global context across a period.

Nevertheless, the data obtained from the sample cases do not match a real case study, as it does not provides a detailed picture of the structure and dynamics of the corporation in its real surroundings. Only two separate interviews were undertaken with the person(s) in charge of CSR at headquarters-level and state-operational level from one corporation. Additional data were retrieved from corporate reports and documents (for instance, annual report, social reporting, web pages, etc.) and no site visits were carried out in any case except at office premises. Hence, the data collected represents how corporate managers perceive of and understand CSR as conveyed in the reports. Table 3.2 shows the types of information and related sources of such information.

**Table 3.2: Secondary Information and Sources of Information**

Information	Sources
History, socio-economic and political context	Books, speeches, articles, newspapers, blogs
The development of <i>Bumiputera</i> hegemony	Books, speeches, articles, newspapers, blogs
The development of CSR	Books, speeches, articles, newspapers, blogs, laws, relevant state's agencies / regulators webpages
Implementation and reporting of CSR	Annual reports, social and environmental reports and corporate webpage

### 3.3.1.1 Corporate Reports and Documents

Corporate reports and documents represent the ongoing socio-economic and political struggle over the meaning of the role of business in society (see Livesey and Kearins 2002). The reports produced both knowledge and information about the corporations and their operations, and influenced and are influenced by the evolving, potentially conflicting meanings and practices attached to the concept of CSR (ibid.). Corporate reports were structured to put forward certain messages and critics argue that;

*“[It is] a permanent expression of those social issues which top management regard as important and wish to communicate to shareholders and the public, and so are a record of the entity’s historical social consciousness”*

*(Macintosh, 1990: 168).*

The information disclosed in the reports was a product of socio-economic and political reality, and differences in that information (themes or items disclosed) across time may be traced to changes in that reality. The empirical material was based on corporate reporting (extracts from annual reports, social and environmental reports and webpage) and the analysis primarily took place at textual level. Interpretations are drawn in relation to the broader CSR discourse.

While corporate reports provide abundant and potentially fruitful material for research, it is generally not objective or a value-free form of disclosure. As a form of corporate communication, it could be used as a method of self-presentation or public relation tools (Gray *et al.*, 1996; Hooghiemstra, 2000). Reports can be used to construct the business as responsible by redefining the corporate image and stakeholders' concerns in a way that is beneficial for the corporations. They are often constructed to portray the corporations in a positive light as a socially responsible and good corporate citizen, rather than merely objectively describing activities and making statements about CSR performance.

Critics argue that corporations actively participate in the struggle to define their meaning and acceptable or desirable modes of being in the society (see Moisander and Pesonen, 2002). This study looked into the Bursa Malaysia's CSR Framework and the Silver Book which provide an assessment for the implementation and reporting of CSR in Malaysia.<sup>97</sup> Although these frameworks provides benchmark on CSR and supported by the state, it does not assess performance but rather reporting practices. This study also referred to Global Reporting Initiative to enriched insights on the global implementation and reporting of CSR.

### **3.3.1.2 Archival Documents and Records**

The examination of publicly available documents and records enables the study to sketch the socio-economic, politic and history that underpinned Malaysian political economy in a contemporary era of economic globalisation. The social and political events were 'periodized' as a method of data ordering and analysis in order to understand the development of CSR across a period. In order to understand social realities concerning CSR, the data was predominantly obtained from secondary sources

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<sup>97</sup> Bursa Malaysia's CSR Framework and Silver Book were launched in 2006, outlining area of contribution to society and environment. Further discussion can be found in Chapter 4.

such as local publications, official reports, budget speeches, public press, political speeches, books, previous studies and government websites. In addition, a number of biographies of influential political figures were examined. It must be recognised, however, that publicly available documents provide mere description of events that have taken place over the years with little critical or analytical comment (Azham, 1999) and has rely on the accounts of journalists and writers (Esterberg, 2002).

Since the state represents a form of capitalist social relations, whose actions and policies shaped the basic relation of conflict and contradiction in a capitalist society (see Armstrong, 1998), the data collected was focused on the country's history and socio-economic background information. To assist data collection, the time period was divided based on 'critical events' in order to understand development of *Bumiputera* hegemony and its relations on CSR (Lieberman, 2001; Perusek, 2002). Therefore, information was focused on: (1) the British colonial policies and economic environment in the pre-independence period; (2) the development of common sense to promote social and economic integration; (3) the establishment of socio-economic policies; (4) the Asian crisis in 1997/98 which marked the beginning of governance reform in the country and how that affects the roles of social actors in promoting social responsibility in later period.

### **3.3.1.3 Semi-Structured Interview**

The primary purpose of the semi-structured interview is to understand the participants' viewpoints on the subject matter, in this case being their understanding of the meanings ascribed to CSR at an individual and organisational level. According to Hammond and Sikka (1996: 81), "*interviews might reveal disagreement as to what course the research should have followed and what disputes were suppressed or over-ridden.*" Kvale (1996: 14, cited in Azham, 1999) further argues;

*“The aim of the qualitative research interview is not to end up with unequivocal and unquantifiable meanings on the themes in focus. What matters is rather to describe precisely the possibly ambiguous and contradictory meanings expressed by the interviewee. The contradictions of interviewees may not merely be due to faulty communication in the interview situation, nor to their personality structures, but may in fact be adequate reflections of objective contradictions in the world in which they live.”*

Holstein and Gubrium (2004) describe the interview as contextually based, resulting from the information gathered in the interaction between researcher and participants. From a social constructionist perspective, interviews yield rich insights into people’s subjective experiences including their values, beliefs and aspirations (Denzin and Lincoln, 2000). Although the researcher begins with some basic idea about the research topic, the response from the interviewee will shape the order and structure of the interview (Esterberg, 2002). This allows for a much freer exchange between interviewer and interviewee (Esterberg, 2002). However, the semi-structured interviews conducted with various groups of stakeholders were not to make a generalisation of CSR engagement in Malaysia, but rather to gain insights into wider perspectives of CSR. Abbreviation and coded names have been used to represent anonymity of respondents.

### **The Interview Guide and Procedures**

Prior to the field work, four areas of CSR were drawn up from literature that comprised of: (1) environmental responsibility, (2) employee welfare, (3) community involvement and development; and (4) responsibilities to the government and society. The interview guide (see Appendix 3) was prepared based on these four pillars and served as a basic checklist to ensure that relevant topics were covered during the interview. Before the interview guide was finalised, a pilot test was conducted with two researcher’s friends who worked as a manager in a multi-national corporation and public sector in Malaysia. However, the purpose of the pilot test was mainly to review the appropriateness and relevance of the questions in the interview guide and to check on the quality, the

language used and the timing of the fieldwork. No changes were made to the interview guide.

At the beginning of each interview, the nature and purpose of this study was explained to the participants and their permission for the interview to be recorded was asked. The participants could refuse to answer questions if they wanted to and this was explained before the interview was conducted. Although most of them felt relaxed and were willing to talk, a number of participants did not find it easy to answer some of the questions. Occasionally, those participants asked the researcher to pass to the next question.

The interviews were conducted at the participants' premises and each session lasted on average between one hour 15 minutes and 2 hours. Most of the interviews were conducted individually although some of the interviews were performed in a group of people. Most of the interviews were recorded on tape (with the consent from the interviewee), though in several cases, several participants request for not being tape. Through the interview process, some sections were not tapped upon the interviewees' request. The researcher took notes during the interview process when request to tape the interview was not permitted. Although researcher followed the interview guide, prompting questions were asked to gather detailed information from the interviewees. The interviewees were encouraged to elaborate their opinions as they wished, which enabled the data collection to be more reflective.

Besides, it was worth mentioning that the interviews were conducted both in Malay and English as most participants were keen to speak '*Rojak Language*<sup>98</sup> (mixed language).

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<sup>98</sup> It is worth mentioning that most Malaysians do not speak proper Malay, English, Mandarin or Tamil to one another. Instead, they always communicate in *pidgin* language, influencing by society and environment where they have grown-up.



The transcripts were then, translated into English and sent for verification by an English-speaking Malay colleague to ensure the accuracy of the translation.

### **3.3.2 Data Analysis**

Thematic analysis was adopted to analyse texts of reports and interview transcripts. This approach was appropriate as the focus of analysis as it helps for *“identifying, analysing and reporting patterns (themes) within data”* (Braun and Clarke, 2006: 79). Besides, it was selected because of its flexibility since it was not limited according to particular epistemological approaches and was compatible with both a realist and a constructivist paradigm (Braun and Clarke, 2006). The concept of theme is used to capture and represent some level of patterned response or meanings within the data set in relation to the research question (ibid.). These meanings are then coded, classified and categorised in patterns, themes and categories in the data to achieve convergence (Patton, 1990).

#### **a. Analysis of Archival Documents and Records**

This study performed a periodisation of Malaysian state formation, in order to understand Malaysian developmental model, forces of production and how hegemony of a dominant class was created and re-created in a web of institutions, social relations, ideas and politics. The analysis was focused on examining and categorising events into ‘historic bloc’, in which the configurations of social forces and state power ultimately rests (Cox, 1981). It was necessary to situate CSR within the context of the country’s political economy since Malaysian socio-economy, politic and history are intimately shaped its domestic setting and simultaneously influence the development of CSR. The historical analysis provides a ‘milieu’ for understanding the development of CSR in Malaysia. However, it is crucial to determine turning points since recognising the choice of specific dates would favours one narrative over another narrative. This is because the particular

circumstances and contexts in which individual historians work and write shaped their interpretations and modelling of past events (Esterberg, 2002). Therefore, changing the periodization can change a historical narrative. The identification of phases mirrors the periodization analysis as commonly used in comparative historical analysis although not in the same depth.

The focus of this study was to understand the influence of *Bumiputera* hegemony on the socio-economic and political forms and arrangement which in turn shaped CSR; thus not focusing merely on the historical events and political outcomes. The analysis was mostly based on in-depth readings to understand the impact of the past events on present meaning and value. The process draw attention to the 'critical events' to be addressed in this study: the legacy of the colonialisms, the development of Bumiputera policy, the state policy and institutional structures that shaped governance mechanisms including CSR and the development of CSR including actors involved in the production of CSR.

#### **b. Analysis of Corporate Documents and Reports**

The analysis of corporate documents and archival records were done after the field work. The secondary data was incorporated to supplement the lack of interview data during the field work. The analysis paid attention to situations, events, institutions, ideas, social practices and processes that may explain the extent to which CSR is being understood and informed at the corporate level. The concern was on how CSR was described, what elements were portrayed as CSR-related initiatives and how the conceptions of corporate role in the society are built. The CEO statements and social reporting were analysed to examine how corporations understand and further construct CSR-related initiatives.

The data analysis was carried out according to the qualitative approach. The study employs In-Vivo-Coding which was a manual analysis process. For the purpose of this

study, deductive thematic analysis (refers to predetermined framework) was used to analyse data. This approach was chosen because the main themes or categories used to group the data have been identified and similar themes are employed to construct an interview guide. The pre-determined themes, drawn from the literature are: (1) environmental responsibility, (2) employee welfare, (3) community involvement and development; and (4) responsibilities to the state. Structural coding was performed to match a phrase or sentence in the reports or documents with the pre-identified themes. For every CSR related initiatives, the level of corporate involvement was rated based on the description of CSR activities and contribution made for those activities. There were three rating levels used; ✓ for full disclosure (include a description on CSR initiatives and contribution made; □ for partial disclosure (either a description on CSR initiatives or contribution made are given in the report); and ∅ for no disclosure (either the corporate involvement for a particular CSR activities were not initiated yet or the corporations do not include the themes as prescribed by this study).

### **c. Interview Data Analysis**

All the tape-recorded interviews were transcribed verbatim and analysed to obtain the respondents' views on the subject matter. The transcribed interviews data were coded to generate categories, themes and patterns. The length of the transcriptions ranged from two to thirty-five pages. The insights gained from the analysis of semi-structured interviews shed some light on how CSR discourses are being understood and informed by corporate managers in Malaysia. Other documentary evidence (such as NGOs' reports) was obtained to complement the interviews. The differences between discourses by various stakeholders were acknowledged and formed parts of understanding CSR and provides a valuable source of information about the gap (if any) between corporate 'talk' and 'action.'

### 3.4 Summary and Conclusion

This chapter has discussed the development of an appropriate methodology and theoretical framework for examining CSR in Malaysia. A wide variety of sociological and theoretical approaches to understand organisation and social phenomenon (including CSR) has been sensitised within the four dimensions of Burrell and Morgan's (1979) paradigm: functionalist, interpretive, radical humanist and radical structuralist. The alternative forms to the analysis of the organisation and society delimits the hegemony of functionalist research. The methodology developed in this study is being informed by the social constructionist perspective, which views social practice (such as CSR) as being (re)produced and shaped by dynamic interplay between social actors and structures. The chosen methodology seeks to understand the subjectivity of social actors (through actions and experiences) and considers dynamic interplay between social actors and structures (that acknowledge the history, power relations and the contradictory role of the state) that may enable or constrain the development of social practices such as CSR. The chapter suggests the need to examine structure-agency relationship in order to understand the conflicts and contradictions surrounding CSR discourse in the context of developing countries, particularly in Malaysia. This study insinuates the political economy theory, developmental state theory and global capitalism as a theoretical lens to explain CSR discourse in Malaysia.

An understanding of CSR necessitates the problematisation of history, power relations and conflicts embedded within capitalist structures that simultaneously (re)construct and shape social order and functioning. Besides, the intensification of economic globalisation creates tensions and contradictions as developmental states are under pressure to build hegemony within the terms of a neoliberal model of capitalism. The reliance on capital accumulation constrains the state's ability to promote CSR as national policies have often devised to facilitate capital mobility. Hence, the different development trajectory underwent by these states could explain

the market ideology and strategy, the contradictory role of the state, the increased power of corporations and the pressure of economic globalisation, which in turn, has impacted upon the demand for CSR and other modes of governance.

The corporations have become the vehicle of modern capitalist economy, rivalling the market in its importance, with institutional characteristics that define the modern form of corporations. Encapsulated within neoliberal ideology and contractual theory, corporations continue to face antagonisms and tensions resulting from conflicting demands between maximising shareholder value and discretion to pursue social goals. Nevertheless, the rapid pace of corporate globalisation raises questions about governance, focusing on how corporations should be governed and what responsibility they have towards the larger system in which they operate. The insufficient global requirements that govern the cross-border economic activities and the lack of state power to address social and environmental issues, cause civil society groups and NGOs to demand corporations to conduct their operations in a democratic manner, be socially responsible and uphold sustainable business practices (Bendell, 2004; Scherer and Smid, 2000; Utting, 2000).

This study is based on social constructionist perspective and underpinned by interpretative approach to social science. A sample case of three corporations is used to examine the nature and extent of CSR practices in the context of Malaysia. The study employed qualitative analysis of corporate reporting and archival documents that are publicly available. In order to gain insights on how CSR discourses are being understood and informed, interviews were undertaken involving various stakeholders, including trade union, NGOs and government agencies. The following chapter examines the socio-economic and political environment of Malaysia to shed some light on the competing pressures from both local and global structures that continue to (re)construct and shape CSR discourse in contemporary economic globalisation and global capitalism.

## CHAPTER FOUR

### THE SOCIO-ECONOMIC AND POLITICAL CONTEXT OF MALAYSIA

#### 4.0 Introduction

The review of the literature (Chapter two) argued that CSR is a social practice, embedded in a particular socio-economic and political environment. Chapter 3 presented a methodological framework that considers the complex interplay between social actors and institutional structures that continually advance or undermine the development of CSR. The chapter argues for the need to problematise history, power relations and the contradictory role of the state, embedded within capitalist structures that simultaneously (re)construct and shape social order and functioning. This in turn has shaped social relations and political reality of a capitalist society, which in turn, impacted upon the demand for CSR and other modes of governance.

This chapter aims to answer research question one and provides the background as well as setting the context for discussions in Chapters 5 and 6. The chapter draws particular attention to the Malaysian developmental model in order to understand the context in which CSR is embedded and to comprehend the development of a particular ideology that has shaped nation-building after independence, particularly CSR. The Malaysian development trajectory necessitates understanding of the Malaysian state as a social construct in which its policies and actions has shaped the basic social relations of conflict and contradiction in a capitalist society and the development of institutional structures crucial for promoting responsible behaviour. The intensification of economic globalisation that creates tensions and contradictions is acknowledged as the country is under pressure to regulate and balance the interests of capital with broader societal issues. Similar to other developing countries, the reliance on foreign capital to stimulate social and economic growth may have an effect on the country's policy-making and the development of institutional structures crucial for promoting social responsibility. The

process may hamper the socio-economic benefits of Malaysian citizens as national policies are often devised to facilitate and enable the conditions for capital accumulation and economic growth.

In order to understand Malaysian state, the historical analysis focused on the country's historical bloc formation and development towards the architecture of CSR in Malaysia: (1) the British colonial policies and economic environment in the pre-independence period which gives the background of the *Bumiputera's* economic and social positions; (2) the development of common sense to promote social and economic integration; (3) the establishment of socio-economic policies, masked by '*Bumiputera* affirmative policy' which saw the state intervention in the economy; (4) the Asian crisis in 1997/98 which marked the beginning of governance reform in the country and how that affects the roles of social actors in promoting CSR in later period; and (5) efforts to strengthen governance framework.

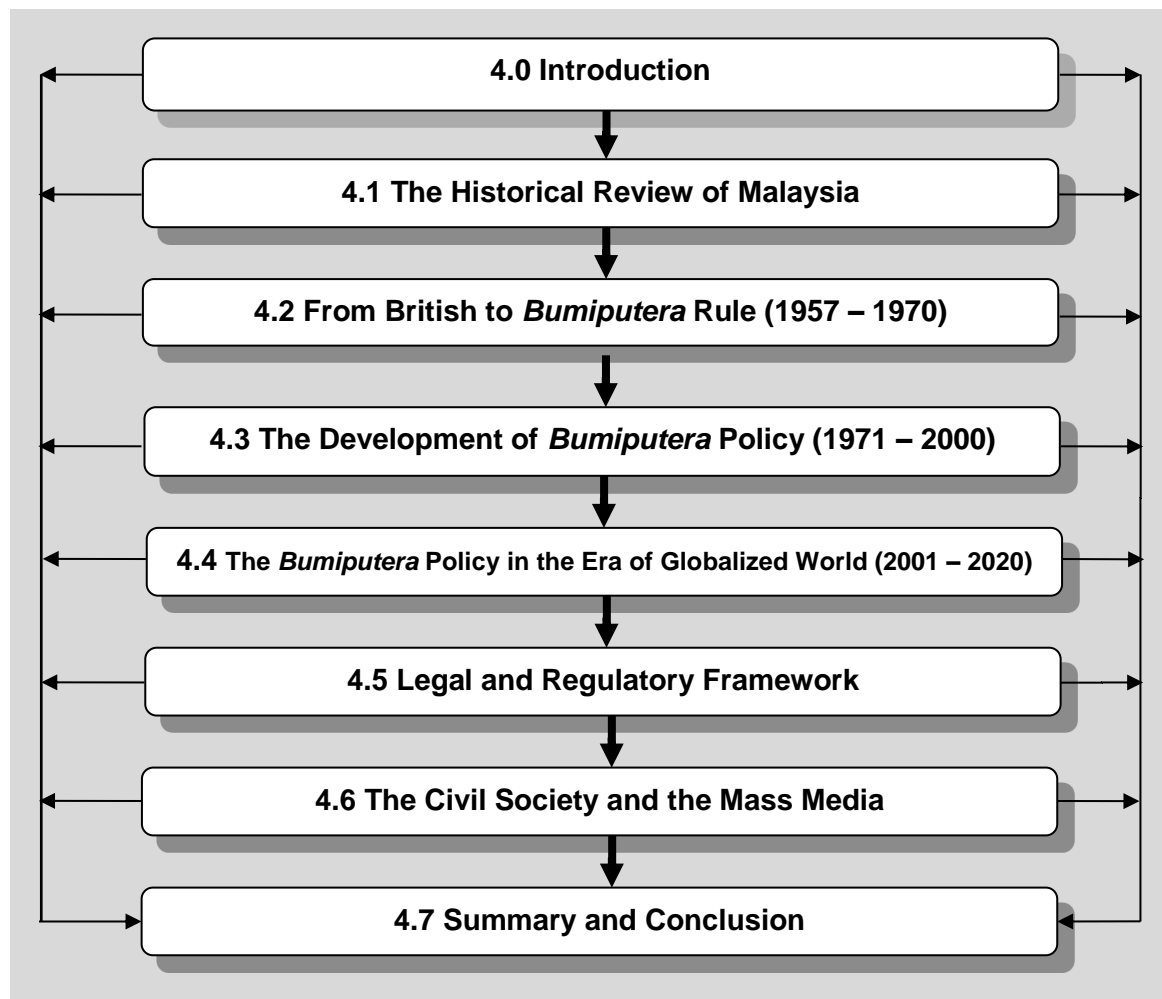
The chapter is organised into seven sections as follows (see figure 4.1): section **4.1** highlights the socio-economic challenges in the post-independence era through the Malaysian historic bloc. The section begins with historical reviews of Malaya (the name before independence) to shed some light on the British legacy that continually shaped the socio-economic and political lives of the Malaysian people and nation-building after independence (see Siwar and Hasan, 2002). It highlights the 'divide and rule' system, used by the British to keep control over the country and to ensure the continuous flow of economic resources to the empire. Section **4.2** continues discussion by highlighting some challenges in the post-independence era. It is argued that the hegemonic interactions between the state and society are achieved through developing a 'common sense', associated with '*Bumiputera*' hegemony. Although Malaysian developmental model may have been distorted by contingent ethnic factors, the legitimacy of the

authoritarian roles is maintained through consistent economic growth and maintenance of racial harmony.

Section **4.3** and **4.4** draws particular attention to social and economic imperatives that have shaped national development policies. The implementation of the policy however requires major state intervention in the socio-economic and political spheres to ensure the accomplishment of national development agendas. It also highlights the integration of Malaysian economy into a global capital market and its impact on the institutional structures crucial for promoting CSR in Malaysia. Section **4.5** provides with a brief discussion about the legal and regulatory framework in Malaysia. It highlights the rules and regulations pertaining to labour, social security, health and environmental protection that govern corporations in Malaysia. It continues with examining the CSR landscape and social actors in Malaysia. Section **4.6** examines the role played by civil society groups and the role of mass media in 'creating social reality', the main propaganda apparatus for the ruling party in developing common sense. It highlights the restrictions imposed on civil society liberty and mass media, which considerably constrains their role as guardians of public interest and as 'watchdogs' on the exercise of government and corporate power. The chapter ends with a brief summary and conclusion in section **4.7**.



Figure 4.1: Structure of Chapter 4



#### 4.1 The Historical Review of Malaysia

A historical review is necessary to understand how CSR is influenced by the larger institutional environment in which it is embedded. The Gramsci's concepts of hegemony and historical bloc (*blocco storico*) and capitalist crisis provides 'maps' and 'lens' to understand complex amalgamations of forces: politic, society and economy within a specific historical conjuncture. The historical context and prevailing social conflict resulting from colonial policy placed potentially problematic restraints on the hegemonic social order but how Malaysia succeeded in assimilating ideological discourse into the Malaysian political economy warranted further investigation. This section provides a

historical background against which to locate *Bumiputera* as an emergent hegemonic framework.

Malaysia is a home to about 28.25 million<sup>99</sup> people and features a multi-racial and multi-religious society: (1) *Bumiputera* who form the majority (65.1%) comprises Malays, the indigenous people of Sabah and Sarawak and the aboriginal groups of Peninsular Malaysia (*Orang Asli*); and (2) *non-Bumiputera* with the Chinese 26.0%, the Indians 7.7% and 1.2% other ethnic groups.<sup>100 101</sup> This multi-ethnic composition could be traced back within the context of Malaysian historic bloc; the British colonisation period in Malaya (the name before independence).

The British influence and intervention in the socio-economics and politics of Malaya was marked by the 'Pangkor-Treaty' in 1874.<sup>102</sup> To gain hegemony over Malaya, the British established a system that recognised the status of Malay rulers (*Sultan*) who appeared to remain in control of the state (see Stevenson, 1975). British officials (Residents) were appointed to assist and advise Malay rulers on all matters of administration and government except those relating to Malay customs (*adat*) and Islamic affairs. Over the course of the colonial period, the Malay peasants were 'protected' in their traditional agriculture whilst the Malay aristocracy was increasingly drawn into the colonial state and groomed by the British to run the state apparatus, emancipating a specific milieu that the position of indigenous people were safeguarded (Lim, 1985; Triantafillou, 2004). Through this, the British hegemony over Malaya has shaped the social reality of the Malay

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<sup>99</sup> Population updated 2 July 2010. <http://www.statistics.gov.my>

<sup>100</sup> Even though the category of *Bumiputera* consists of different ethnic groups, the dominant ethnic and political group in Malaysia is generally the Malay ethnic group, who has also been recognized by the British colonial rulers and by the Constitution as the rightful rulers of the country (Torii, 1997: 213).

<sup>101</sup> The breakdown percentage of ethnicity as at December 2008.

<http://www.state.gov/r/pa/ei/bgn/2777.htm>

<sup>102</sup> The strategic geographical location of Malaya and abundance of natural resources attracted the following colonialist powers: the Portuguese (1511), the Dutch (1641) and later the British (1795). Malacca was ruled by Malay sultans before it fell to the colonialists' power.

community as the rightful owners of Malaya, despite having been colonised by the British (Lim, 1985).

#### **4.1.1 The Colonial Era (1786 – 1957): The Roots of Conflict**

During the colonial period, tin and crops became dominant export material for Malaya but were monopolised by the British or Europeans and to a lesser extent by Chinese entrepreneurs (Gomez and Jomo, 1999). The large-scale plantations and the growing global demand for tin and rubber had led to a strong demand for cheap labour from China and India to work in tin mines, mills and rubber plantations owned by British capitalists. The influx of foreign settlers brought in by the British changed the social composition of the Malay Peninsula considerably. The increase in the immigrant population was regarded as posing a threat to the Malays (Shamsul, 2001). However, since the British was seen as playing a 'trusteeship' role to protect the Malays' interests, their discontent was stifled (Kheng, 2003). For instance, the British enacted the Malays Reservation Enactment and Rice Land Act to protect the Malay peasantry from being swamped by immigrants (see Lim, 1985).

In the 1950s, the economy remained heavily dependent on foreign investment, which controlled about 75 percent of export trade and 60-70 percent of import trade (Gomez, 1996). It was claimed that about 67 percent of tin output was controlled by European capitalists, whilst the Chinese controlled the remaining 33 percent (Gomez and Jomo, 1999). Besides, Europeans controlled 83 percent of the rubber estates, followed by 14 percent Chinese and 3 percent Indians, but Malay estates were seemingly non-existent (Jesudason, 1989). It was observed that the growing economy only benefited the British and Chinese capitalists but Malays were being economically marginalised (Nor-Zalina *et al.*, 2010).

Critics noted that the Malays' economic activities were minimal and concentrated on rice cultivation and poor representation in the tin-mining industry and manufacturing due to financial incapability (Jesudason, 1989).<sup>103</sup> The Acts enacted were not in favour of Malay's interest (Horii, 1991) but designed merely to preserve the position of the British (Abdullah *et al.*, 2003). The Rice Land Act for example, prohibited Malays peasants from cultivating any cash crop other than rice on the Reserved Land; hence, prevented them from engaging in modern economic activities (Lim, 1985). The British 'divide and rule' system had pushed the Malays to rural areas and began separating the Malays from immigrant communities physically and economically.<sup>104</sup> The Malays mainly engaged in subsistence agriculture and low-income economy. In contrast, the Chinese resided in urban areas as the Chinese-dominated mining developed new towns, whilst the majority of Indians continued living as plantation labourers in Malayan estates (see Cheah, 2002; Drabble, 2000; Haque, 2003). Consequently, the Malays' political control weakened substantially and the seeds of suspicion and separatism between communities were sown (Lim, 1985).

The colonial legacy remained intact and continues to shape the socio-economic and political lives of Malaysian plural society. First, the post-colonial society featured deep class cleavages and economic discrepancies that are no less significant than the ethnic distinctions: in geographic location, in types of economic activity and in the levels of livelihood (Jomo *et al.*, 1995). Second, Malaysia is integrated into the global capitalist system and thus shaped the state-society relations and governance mechanisms. Third, it sets the framework of class accommodations, politic and ethnic ideology (Hilley, 20010). A close examination of Malaysian state will be helpful in understanding the conflicts and

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<sup>103</sup> In contrast to Europeans and Chinese counterpart, scholars argued that Malays lacked of institutions that could mobilised capital and pool economic resources effectively (Jesudason, 1989).

<sup>104</sup> The divide and rule system has weaken community cohesion which could imperil the British occupation of Malaya and thus, keep control over the country and ensure a continuous flow of economic resources to the British Empire (Drabble, 2000).

contradictions inherent in its social policies and actions which in turn, influence the institutional structures crucial for promoting CSR.

#### **4.2 From British to *Bumiputera* Rule (1957 – 1970)**

This section shed some lights on power relation, in particular the pervasive role of the state in crafting mass consciousness to sustain its legitimacy. The Gramscian hegemonic perspective is useful to understand the evolving framework of power through ideological discourse to balance class interests and to rationalise the heightened state's roles in the economy. *Bumiputera* affirmative policy seemed to perform Gramsci's legitimising function of providing the means by which *Bumiputera* hegemony has shaped socio-political consciousness and mobilising support for the national developmental agendas. This section reviews the construction of Malaysian historic bloc in the post-colonial period.

Malaysia gained independence from the British on 31<sup>st</sup> August 1957 and has been governed by only one political alliance since then. The ruling coalition comprises of the UMNO (the United Malays National Organization), the MCA (the Malaysian Chinese Association) and the MIC (the Malaysian Indian Congress). This political leadership has organised its support base by continuing to emphasise on race as an important dividing line between peoples: UMNO represents Malay 'administrators' – the descendants of the Malay pre-colonial ruling class (Jomo, 1986), the MCA articulates the interests of Chinese capitalists and the MIC represents the Indians.

#### 4.2.1 The *Bumiputera* Resurgence (1960's)

In the period following decolonisation (1957-69), the state was concerned about retaining the British capitalists and other foreign investment to foster economic growth and thus, pursued a mild development strategy without hurting the foreign capitalists (Jomo *et al.*, 1995). To promote industrial growth, the state introduced investment incentives which included tax holidays, industrial estates, and the provision of supporting services and infrastructure, which were institutionalised in measures such as the Pioneer Industries Ordinance (PIO) 1958 and Federal Industrial Development Authority (FIDA) (Salleh and Meyanathan, 1993).<sup>105</sup> The Investment Incentives Act (1968) and Free Trade Zone Act (1971) provides incentives which include export credit, tax breaks, export-related subsidies, investment incentives in specific industries and duty free imports.

Nevertheless, the laissez-faire economy which promotes minimal state intervention only benefited the foreign and Chinese capitalists and further weakened the Malays economically and socially. The concentration of wealth was still in foreign hands, in which most fledgling industries were owned by European and Chinese capitalists (Salleh and Meyanathan, 1993).<sup>106</sup> Nevertheless, critics argue that the market-led development was an implicit "social contract" arising from political compromise between the ruling coalitions. The social contract agreement sought to preserve Malay hegemony in politics without adversely affecting the status quo of the Chinese in the economy (Marzuki, 2007). The ruling coalition greatly depended on the market to redress the economic disparities between the different racial groups.

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<sup>105</sup> The Pioneer Industries Ordinance granted pioneer status to any corporation that could establish economic rationale in the name of public interest, where they were then awarded a tax holiday. FIDA was established to promote and regulate industrial development (later renamed as the Malaysian Industrial Development Authority in 1968) (Salleh and Meyanathan, 1993).

<sup>106</sup> However, this foreign presence was arguably less visible than that of the ubiquitous local Chinese capitalists who continued to be primarily engaged in commercial and financial activities (Jomo *et al.*, 1995).

Despite economic growth during the period, the domestic labour market could not keep up with the growing number of immigrants and as a result, unemployment rates reached 7 percent by the end of the 1960s (Salleh and Meyanathan, 1993). Widespread poverty remained a problem particularly among *Bumiputera* and ethnic tensions grew as inequalities were perceived in ethnic terms which consequently contributed to social discontent (Andaya and Andaya, 2001). This discontent took the shape of resentment and distrust toward the economically dominant Chinese (Abdullah, 1997; Gomez, 1999).

The dissatisfaction towards the laissez-faire system has led to the *Bumiputera* resurgence in the 1960s, instigated by a group of young Malay nationalists within UMNO who felt that they must advance *Bumiputera's* economic interest. Although the *Bumiputera's* special rights are set out in Article 153 of the country's Constitution, it does not outline on how the *Bumiputera* is to be helped and consequently, there was not much effort done to pursue the *Bumiputera's* interest. This had led to much political debate and policies focusing on improving the Malays' economic livelihood and the need to distinguish Malays (or *Bumiputera*) from immigrants (non-*Bumiputera*). At the same time, the Malays capitalists through their connections with the political and administrative elites started to exert pressures on the state to hold the *Bumiputera* Economic Congress, which served as a platform to promote *Bumiputera* economic development (Shamsul, 2004). In response to mounting pressure, the state then convened a *Bumiputera* Economic Congress in 1965 and 1968 respectively. The congresses produced proposals and resolutions, which were later, consolidated into a policy, the National Economic Policy (Shamsul, 2004). However, that did not give much impact and *Bumiputera* involvement in the modern economy was still minimal.

The prolonged socio-economic tensions resulting from colonial economic structure, disenchantment with the political alliance associated with increasing unemployment, worsening income inequalities and the regime's inability to stem increasing ethnic

polarisation had led to ethnic clashes between the Malays and the Chinese in 1969 (Horii, 1991; Jomo *et al.*, 1995; Verma, 2002). The deadly riot happened following the release of the general election results and involved major casualties: hundreds of people died (unofficial reports claimed between 800 and 1000), vehicles and houses were burnt and many Chinese were left homeless (Hwang, 2003). A declaration of the national emergency was made; the Parliament was suspended and the country was temporarily governed by the National Operations Council (NOC) until 1971. Although Malaysia has not seen hostile clashes since then, the state often referred to the bloody riot as a reminder to its people to avoid issues that could trigger racial tensions and antagonise between its constituent ethnicities.

#### **4.2.2 Developing Common Sense: Instilling *Bumiputera* Hegemony**

The review of historical context demonstrates a “framework for action” (Cox, 1981: 135-137); comprising of actions and a certain set of dominant ideology which subsequently shaped what is perceived as common sense and thus reasonable and possible (Stephan, 2011). The question to address is how common sense and support for certain ‘ideology’ is socially constructed. In the case of Malaysia, the ethnic riot marked the turning point of how social, economy and politics are to be governed in the country thereafter. It provided justification for the state to intervene in the economy which saw a strong state role in the process of capital accumulation which eventually led to crony capitalism. It was argued that the hegemonic interactions between market, the state and social relations were crucial to promote social cohesion, political stability and to achieve national unity (Gomez and Jomo, 1997; Verma, 2002).

The state was able to implant a ‘common sense’ that improving *Bumiputera* economy is of prime importance, through a dissemination of information on the rationale and objectives of the national policy. The ‘constructive protection’ of *Bumiputera* (Mahathir,



1970: 31) was proposed and represented as a form of social relations, in which the institutions of the state are indispensable to the maintenance of social cohesion and identity and undue *Bumiputera* support for the ruling regime. The *Bumiputera* hegemony, disguised in terms of socio-economic policy is considered as 'the best' way to manage a complex amalgam of Malaysian social and political life. The interests of non-*Bumiputera* are also safeguarded as the policy served as the second social contract that promised equitable growth amongst Malaysian communities (Salleh and Meyanathan, 1993). To ensure the stability and legitimacy of the state and regime, the nation building process also involved the acceptance of Malay language, religion and culture as a national identity (Verma, 2002). The acceptance of this prevailing common sense enables the dominant groups to exercise and legitimise their social and political control in society.

#### **4.2.3 Transition in the Political Leadership and the State**

For over the years, the ruling regime has (re)constructed regime legitimacy from coercive domination and ethnic manipulation into a realisation of active consent (see Hilley, 2001). The process is facilitated by the state action in the form of economic intervention, social policy and authoritarianism. Through this, the ruling class articulated its interests as hegemonic discourse through maintaining a continuation of (ideological) leadership. The *Bumiputera* ideology is used as an instrument of hegemonic discourse to legitimise the ruling regime's developmental agendas.

Malaysia inherited British colonial institutions; characterised by democratic political system and a parliamentary monarchy system, consisting of the upper house (senate) and the lower house (House of Representatives) (Gomez and Jomo, 1997). The Prime Minister heads the federal government, assisted by the cabinet, whose members are from either house and represent leaders of the governing coalition of ethnic-based parties (Salleh and Meyanathan, 1993). The hegemony of the coalition lies in its

'perceived' ability to achieve economic growth based on continuing development for all communities. The ruling regime has consistently maintained a two-thirds majority in both houses in every sitting of Parliament, giving them political will to amend the country's Constitution (Rodan, 2004). In fact, the Constitution was amended for several times to suit their desire for greater authority (Rodan, 2004).

The authoritarian political system<sup>107</sup> had deepened during the administration of former Prime Minister, Mahathir Mohamad (1981 – 2003). The authoritarian measures had deepened the concentration of power in the hands of a few people who formulate, supervise and implement socio-economic policies (Jomo, 1996) and had seen stringent control of the key institutions in the country which served as procedural checks on despotic executive power (Kim, 2001; Slater, 2003). The authoritarianism has seen the loss of independence of the judiciary, the reduction of the power of the Malay rulers and the continuing use of the colonial repressive legislation on internal security, media, sedition, official secrets and religious and ethnic relations. For instance, the Internal Security Act (ISA) is implemented to curb civil rights and opposition debate whilst the Sedition Act is used to prevent society from questioning the special rights and privileges accorded to *Bumiputera* and the right of non-*Bumiputera* to citizenship. Through authoritarian measures, the state is able to foster *Bumiputera* affirmative policies without undue social disturbance and cries of "foul play" across the period (see Salleh and Meyanathan, 1993).

Ironically, critics argue that authoritarianism was a necessary to ensure social, economic and political order for capitalist development; a position that assisted authoritarian leaders to rationalise repression (Rodan, 2004). Due to historically specific conjunctures of class and state interests, the advancement of *Bumiputera* business class has been

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<sup>107</sup> Malaysia has been classified as 'pseudo-', 'semi-', 'quasi-democracy', or 'authoritarian-democratic regime' (Case, 2001: 43; Crouch, 1996).

more a force for regime consolidation than regime change, whilst capital accumulation appeared to operate within the authoritarian frameworks. As such, the *Bumiputera* hegemony is socially institutionalised through language and common sense and within the power-knowledge relations, emancipating a specific milieu to serve dominant social group interests.

Besides, Malaysia is governed by only one political coalition since independence under which national socio-economic policies have been streamlined. The federal state dictates the content of national policies, in which the formulation and implementation of development plans are held to be the sole prerogative of the state. Although there was changes in political leadership over the period but it had minimal impact on the national policy. What has changed however, is the economic outlook of the state and how it has transformed and shaped the country's institutional structures in the era of economic globalisation which in turn, shaped the demand for CSR within the socio-economic and political context of Malaysia.

#### **4.3 The Development of *Bumiputera* Policy (1971 – 2000)**

The Gramsci's historic bloc and capitalist crisis provides appropriate construct to explain the "frameworks of power" that shaped Malaysia's development during the post-colonial period and the "changing configuration of state-class relations" under the hegemony of political alliance and *Bumiputera* agendas (Hilley, 2001: 9). It provides a timely insight into the socio-economic and political influences that inform the choice of socio-economic policies and growing demands for neoliberal reforms. The national socio-economic policies were overwhelmingly organised around race-based social order as the country struggled to overcome the legacy of the British divide and rule political system. The policies aim to build national unity and social cohesion as racial tensions remain beneath the thin semblance of racial harmony.

A wide range of policies and plans have been established to guide the management of national development, namely; the (1) New Economic Policy (1971-1990), which focused on growth with equity; (2) National Development Policy (1991-2000); (3) National Vision Policy (2001-2010); and (4) New Economic Model (2011-2020). The public policy has continually evolved over the years in response to changing social, economic and political conditions (Salleh and Meyanathan, 1993) (see figure 4.2). This provides hegemonic opportunities to the ruling regime to reshape state-class relations through privatisation, liberalisation, deregulation and an advancement of *Bumiputera's* interests.

### **I. The New Economic Policy (NEP): 1971 – 1990**

The New Economic Policy (NEP) was formulated by the National Operation Council in the aftermath of the 1969 racial riots. Most of the ideas and practical policies incorporated into NEP were drawn from the proposals and resolutions of the *Bumiputera* Economic Congress 1965 and 1968 (Shamsul, 2004). To overcome class conflicts and ethnic tensions, NEP focused on restructuring society by emphasising on equitable growth, national unity, eradication of poverty and economic growth across the period. NEP focused on: (1) poverty eradication by raising the income levels, increasing employment opportunities for all Malaysians and raising the *Bumiputera* share of corporate equity to 30 percent; and (2) restructuring of society to eliminate the identification of ethnicity with economic functions.<sup>108</sup> The policy was implemented for over a 20-year period (1971 to 1990), at the end of which it was expected to have achieved both of its objectives.

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<sup>108</sup> Other mechanisms include: (1) quotas for *Bumiputera* in admission to state universities and schools, in the granting of scholarships and in public sector employment; (2) employment quotas in the private sector; (3) quotas in the tendering of government contracts and business licences; (4) preferential treatment in the allocation of public housing; (5) and discounts for the purchase of residential properties.

Figure 4.2: The Development of *Bumiputera* Hegemony and Policy

Event	Prime Minister	Tenure Period	Politic	Economic Outlook	Socio-Economy
British colonial rule			Divide and rule system		Deep class cleavage and economic disparity.
Independence			Political alliance	<ul style="list-style-type: none"> <li>• Laissez-faire economy.</li> <li>• Import substitution to encourage the growth of domestic industries.</li> </ul>	<ul style="list-style-type: none"> <li>• Failure to respond to the Malay's and other races' interests.</li> <li>• Wide spread poverty particularly <i>Bumiputera</i>.</li> </ul>
First <i>Bumiputera</i> Economic Congress	Tunku Abdul Rahman	1957-1969			Dissatisfaction towards <i>laissez-faire</i> capitalism and called for more direct and active state intervention to promote <i>Bumiputera</i> 's interests.
Second <i>Bumiputera</i> Economic Congress					
May 13 Riot				National emergency declared and Parliament was suspended.	
			National Operations Council	Economic adjustment and the state intervention.	Nurturing <i>Bumiputera</i> hegemony.
New Economic Policy launched	Tun Abdul Razak	1971-1976	Formed the National Front to replace the Alliance party in 1974.	<ul style="list-style-type: none"> <li>• Liberalisation of domestic economy and export-oriented industrialisation.</li> <li>• Foreign Investment Committee, Petroleum Development Act 1974 and Industrial Coordination Act 1975 are established.</li> </ul>	<ul style="list-style-type: none"> <li>• Increase <i>Bumiputera</i> share of corporate equity.</li> <li>• Eliminate the identification of race with economic function.</li> <li>• Malay language as the teaching medium in schools and universities.</li> </ul>

		Tun Hussein Onn	1976-1981		<ul style="list-style-type: none"> <li>• Launched the National Unit Trust Scheme.</li> <li>• Expressed concern about the growing corruption but was unable to deal decisively.</li> </ul>
Privatisation Policy	1983	Tun Mahathir Mohammad	1981-2003	State-led heavy industrialisation	<ul style="list-style-type: none"> <li>• Partial privatisation and liberalisation</li> <li>• Look East Policy</li> <li>• Malaysia Incorporated</li> </ul>
National Development Policy launched	1991			Deregulation to remain competitive in the global economic environment.	<ul style="list-style-type: none"> <li>• The establishment of GLCs.</li> <li>• Emphasis on growth and income raising policies.</li> <li>• Incorporating 'balanced development' into national policy.</li> </ul>
ASEAN Economic Crisis	1997/1998			1998 capital control	Improving governance framework.
National Vision Policy	2001			State intervene to induce economic recovery	Industrialised nation by year 2020.
		Tun Abdullah Badawi	2003-2009		<ul style="list-style-type: none"> <li>• Nurture SMEs and 'halal' product.</li> <li>• Agriculture and biotechnology.</li> <li>• Advocates Islam Hadhari.</li> </ul>
New Economic Model		Najib Razak	2009 to present		<ul style="list-style-type: none"> <li>• Further liberalisation of domestic economy.</li> <li>• Reform <i>Bumiputera</i> policy.</li> </ul>

The implementation of *Bumiputera* policy involved a combination of developmental and distributional concerns, aiming to empower *Bumiputera* entrepreneurs and economic participation (Drabble, 2000; Muhamad-Ikmal and Zahid, 1996; Salleh and Meyanathan, 1993). The state created several mechanisms including infrastructure and trust agencies to provide financial and technical assistance, employment and managerial training needed for *Bumiputera* entrepreneurs to thrive. For instance, the *Bumiputera* trust agencies – National Equity Corporation (PNB) was established in 1978, responsible for advancing *Bumiputera* share of corporate equity by acquiring substantial shares in major Malaysian corporations and placing those shares in a trust fund for subsequent sales to *Bumiputera* in the form of smaller units (Gomez, 1996).<sup>109</sup>

The implementation of NEP was coincided with the discovery of offshore petroleum and the boom in the international commodities price in the 1970s which has bolstered state revenues. This has enable the state to finance its intervention in the economy including the proliferation of public enterprises and *Bumiputera* businesses which sought to empower *Bumiputera* through public sector ownership of corporate equity, employment opportunities and entrepreneurship. It was claimed that about 1,137 government-funded corporations and more than 94 agencies were set up during the NEP period, which relied heavily on loans from both domestic and international markets (Salleh and Meyanathan, 1993; Shukor, 2006).

#### **a. Privatisation: A Hegemonic Opportunity**

The proliferation of public enterprises however, placed demands on the public sector budget, causing fiscal deficits and external debts to snowball, which were further exacerbated during the world economic recession in the 1980s (Gomez, 1996). The

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<sup>109</sup> To achieve objectives outlined in the NEP, the state began a policy of *velvet nationalization*, in which trustee companies (notably PNB) buying out and restructuring the equity of foreign held companies through. Over the years, PNB becomes the country's leading investment institution with fund totalling more than RM255 billion (as at July 2013), through a diversified portfolio that include finance, plantations, property development and communication sectors.

public enterprises incurred heavy losses, of which accounted for more than one-third of the public sector's outstanding debt and for more than 30 percent of total debt servicing in the 1970s (Gomez, 1996). Critics argue that public enterprises on the whole were economically inefficient due to poor management, rapid expansion, political patronage, corruption and diversion of funds by ministers and politician for political ends (Gomez, 1996; Jomo *et al.*, 1995).

To reduce financial and administrative burden on the state and to facilitate economic growth, privatisation programmes were implemented and several sectors of the economy were liberalised (Drabble, 2000). The privatisation policy was initiated by Mahathir and executed at a time when Thatcher was promoting privatisation in the United Kingdom. The United Kingdom's experience was used extensively in formulating the details of the privatisation policy as there was little experience on privatisation in the Asian economies (Zainal Aznam and Bhattasali, 2008).

However, privatisation of public enterprises merely involved a transfer of share ownership without any change in the legal form of enterprise (Jomo and Tan, 1996). In most cases, privatisation involved partial divestment, with the state or its agencies remaining as majority shareholder. Even if the state's shares declined to less than half, the state would create a 'Special Share', allowing it to retain control or at least veto powers even with considerably diminished minority ownership (Jomo and Tan, 1996). The share of RM1.00 would enable the state through the Ministry of Finance (MoF) to ensure that certain major decisions affecting the operations of privatised corporations are consistent with the state policy and to protect *Bumiputera* capital participation.

To accelerate the pace of privatisation, the 'Malaysia Incorporation' model was introduced in 1983 which envisaged a commitment of both public and private sectors, working closely together to foster economic growth and ensure that accrued profits are



shared by all. Privatisation and liberalisation do not negate *Bumiputera* policy but aim to foster *Bumiputera* enterprises and entrepreneurs in the commercial and industrial sectors and to correct the imbalances in the corporate sector participation. Privatisation policy also required privatised corporations to allocate 30% of equity to *Bumiputera* (Nor-Zalina *et al.*, 2010). In the mid-1990s, 40 public enterprises and 14 projects had been privatised including telecommunications, highway construction and operation, airlines system and electricity (Drabble, 2000; Salleh and Meyanathan, 1993).

Nevertheless, privatisation was not accompanied by increased competition, but created monopolies. This is because most of the enterprises selected for privatisation were natural monopolies and thus, selling them did not change their monopolistic status (Salleh and Meyanathan, 1993). Hence, it raises question of whether Malaysian people are well served, since it is argued that privatisation of key strategic utilities and services undermined public welfare through higher user charges (Jomo and Tan, 1996). Whilst the public sector inefficiency need to be addressed, privatisation has mainly benefited the politically influential, leaving the public vulnerable to the enhanced powers of private capital. Besides, what made privatisation so significant in Malaysia was the fact that the transfer of wealth and resources limited to political-corporate elites (Hilley, 2001).

*“As a milestone policy of economic modernisation, privatisation thus offered a more flexible set of arrangements for altering the class base of the power bloc, checking elements hitherto protected by the state, while promising new forms of wealth and political access for large-scale capital.”*

*(Hilley, 2001: 59)*

Privatisation and deregulation provides hegemonic opportunity to the state to shift patronage-based economic system to the ruling regime control and thus allowing ‘a new political-corporate network to be built through concessions to strategic interest’ (Hilley, 2001: 255). Nevertheless, privatisation remains a problem and poses conflicting interests due to inherent tension between profitability and the desire to promote socio-economic

interests of Malaysian society. Besides, the increased pressure to build hegemony within the terms of a neoliberal model of capitalism posed a threat to the country's patronage network.

#### **b. The Breed of Crony Capitalism**

The state-led capitalism has comprised and conditioned the development process and simultaneously defined the country's socio-economic and political forms and arrangements. The personal ties and predatory state power bound the relationships between public and private sectors through various 'clientelist' mechanisms (cronyism) that eventually controlled the Malaysian economy (see Kohli, 2004). The *Bumiputera* policy has become a huge social engineering project that altered the class structure of Malaysian society by sponsoring the rise of the Malay capitalist class<sup>110</sup> through a patronage-based economic system (Jomo et al., 1995). Critics have seen the 1969 incident as a 'blessing in disguise' for the Malay capitalist to advance their interests (Shamsul, 2004: 191);

*"They were presented with the golden opportunity to promote their interests on the economic front through the UMNO-controlled government, which then incorporated their demands amongst the objectives and policies of the NEP."*

The allocation of economic resources and distribution of economic rents were awarded to selective patronages through privatisation projects, government procurement and business licenses, which essentially produce a new class of rich Malay businessman, usually politically-linked to the ruling party (Gomez and Jomo, 1997). This structure not only empowers the powerful elite but undermined public accountability and impaired institutions for advancing governance systems and CSR. Scholars argue that the distinction between the interests of the state and the social elite became blurred over the

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<sup>110</sup> The rise of Malay capitalists were referred as; (1) statist capitalists – bureaucratic associations and reliance on state power and patronage (Jomo 1988); (2) distributional coalitions – involvement in powerful rent-seeking ensembles (Mehmet 1986); and (3) ersatz capitalists – orientation toward short-term accumulation rather than long-term industrial development (Yoshihara 1988).

years, as the improved position of the latter was contingent on state largesse (Underhill and Zhang, 2005).

### c. Government-Linked Companies (GLCs)

The privatisation policy marks the establishment of the state-owned enterprises or known as government-linked companies (GLCs) in the Malaysian context. GLCs are defined as corporations that have a primary commercial objective in which the Malaysian government has a direct controlling stake.<sup>111</sup> Controlling stake refers to the ability of the state (not just percentage ownership) to appoint board members, senior management, make major decisions (including contract awards, strategy, restructuring and financing, acquisitions and divestments) directly or through government-linked investment companies (GLICs). GLICs on the other hand, are defined as the ability of the federal government to appoint/approve board members and senior management and having these individuals report directly to the state.<sup>112</sup> As of December 2012, this definition includes seven GLICs: Khazanah Nasional Berhad (Khazanah<sup>113</sup>), Employees Provident Fund (EPF<sup>114</sup>), Retirement Fund (Incorporated) (KWAP<sup>115</sup>), Armed Forces Fund Board (LTAT<sup>116</sup>), Hajj Pilgrims Fund Board (LTH<sup>117</sup>), National Equity Corporation (PNB<sup>118</sup>) and Minister of Finance Incorporated (MoF<sup>119</sup>).

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<sup>111</sup> <http://www.khazanah.com.my/faq.htm#ques8> (accessed on December, 2011).

<sup>112</sup> <http://www.khazanah.com.my/faq.htm#ques8> (accessed on December, 2011).

<sup>113</sup> Khazanah is the investment holding arm of the state, entrusted to hold and manage the commercial assets of the state and to undertake strategic investments. Khazanah was incorporated under the Companies Act 1965 on 3 September 1993 as a public limited company. The share capital of Khazanah is administered by the Minister of Finance and the Prime Minister is the Chairman of the Board of Directors. It has a nine member board comprising representatives from the public and private sectors.

<sup>114</sup> EPF is a social security institution formed pursuant to Employees Provident Fund Act 1991 which provides retirement benefits for members through management of their savings.

<http://www.kwsp.gov.my/portal/en/about-epf/overview-of-the-epf> (assessed on January, 2012).

<sup>115</sup> KWAP was established under the Retirement Fund Act 2007 to assist Federal Government in financing its pension liability.

<http://www.kwap.gov.my/En/AboutKWAP/Pages/background.aspx> (assessed on January, 2012).

<sup>116</sup> LTAT was established in 1972 by an Act of Parliament to provide retirement and quality socio-economic benefits for members of the Malaysian Armed Forces.

<http://www.ltat.org.my/web/ltat/indexE.html> (assessed on January, 2012).

<sup>117</sup> LTH facilitates savings for the pilgrimage to Makkah through investment in *Shariah*-compliant vehicles. <http://www.tabunghaji.gov.my/en/web/quest/laman-utama> (assessed on January, 2012).

The privatisation policy executed in the 1980s saw that GLICs remains to hold ownership and control rights in many privatised corporations including GLCs. Through this structure, the state continues to have a strong presence in the economy through the control of GLCs and GLICs (see figure 4.3).<sup>120</sup> GLCs emerged as the main service providers for key strategic utilities and services in the country and involved in sectors and projects that are considered to be of national interest and/or those having elements of social responsibility to the nation.<sup>121</sup> Perhaps, it could be implied that much of GLCs activity is centred on supporting the nation-building agenda and creating value for the nation beyond financial returns. The proliferation of public sector and GLCs has led to *Bumiputera* domination in these organisations and this contributes to the increase in the percentage of Malay directors on listed corporations (Nor-Zalina *et al.*, 2010). However, the appointment of directors was political and concentrated in the hands of very few influential Malays, in which 60% of them were former bureaucrats and/or politicians (Lindenberg, 1973, cited by Lim, 1985).

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<sup>118</sup> PNB was investment institution which has been incorporated in 1978.

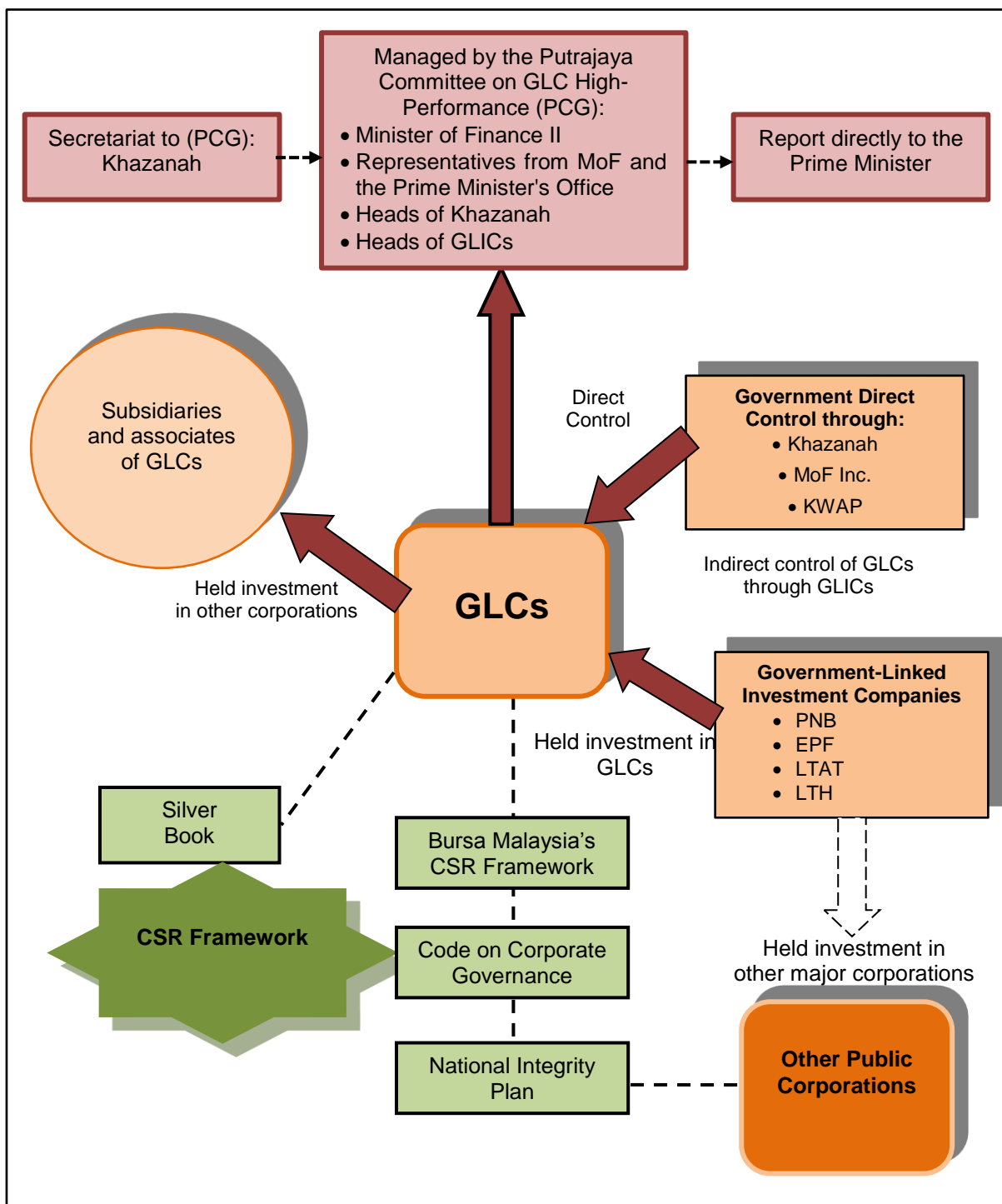
[http://www.pnb.com.my/about/about\\_us.cfm?cat=1&subcat=1](http://www.pnb.com.my/about/about_us.cfm?cat=1&subcat=1) (assessed on January, 2012).

<sup>119</sup> The Ministry of Finance Incorporated (MoF Inc.) is a body corporate established pursuant to the Minister of Finance (Incorporation) Act 1957. The ministry is responsible to ensure sustained and continuous economic growth; to strengthen national competitiveness and economic resilience; to ensure effective and prudent financial management; to pursue a more equitable sharing of national wealth; and to improve quality of life and well-being of society. As a shareholder for Malaysian government, MoF Inc. is accountable in overseeing of government's investments.

<sup>120</sup> There are three categories of GLCs, which could be further classified according to the shareholding structures or control: (1) corporations that are controlled directly by Malaysian governments through its agencies; (2) corporations that are indirectly controlled by Malaysian government; (3) corporations where GLCs themselves have a controlling stake, for instance the subsidiaries and affiliates of GLCs.

<sup>121</sup> These GLCs play a leading role in the development of the country, especially through greater investments under the Ninth Malaysia Plan. The government required the private sector to be the main engine of economic growth including R&D, human capital development and the development of new growth areas.

Figure 4.3: The Structure of Government-Linked Companies (GLCs)



## II. National Development Policy (NDP): 1991 – 2000

The first phase of NEP aimed to accelerate growth and develop productive forces. In the second phase of NEP, the state continuously regulates its legislation framework in favour of a more liberal market approach. Under the administration of Mahathir Mohammad, the state-business relationship was ostensibly nurture domestic enterprises through a system of selective patronage and foreign capital. Meanwhile, the fast pace of industrial expansion had seen a raft of environmental challenges in a form of industrial waste. The development of tin mining, rubber and palm oil production years ago has polluted rivers and seas. Public complaints and media coverage on environmental issues has increased in the 1990s (Perry and Singh, 2001). The contradictions arising from social costs that accompanied industrialisation and growing public awareness of environmental issues have led the state to establish institutional structures that promote responsible practices.

The state role in promoting environmental wellbeing is reinforced in the Seventh Malaysia Plan. The implementation of the National Development Policy (NDP) emphasise on the strategy of 'balanced development', which has seen the incorporation of the environmental policy into its four principles of developmental planning;

*"Firstly, the principle of growth with equity is fundamental to ensure the realization of a fair and equitable distribution of national wealth. Secondly, a balanced societal development is conducive to the maintenance of social and political stability. Thirdly, the nurturing and moulding of a Malaysian society with high moral values and ethics as well as positive attitudes are fundamental towards the creation of a responsible, resilient, progressive and caring society. Fourthly, prudent management of natural resources and the ecology as well as preservation of natural beauty and clean environment are important to improve the quality of life for the present as well as future generations. The balanced development of the economy is essential to ensure stable growth, minimize social conflicts, promote racial harmony and enhance national unity."* (Sixth Malaysian Plan, 1991: 5)

The balanced development and environmental conservation aimed to achieve a clean, safe and healthy living environment for current and future generations, and to promote lifestyles and sustainable modes of production and consumption. The integration of environmental concerns into development planning was indeed, initial step taken by the

state to overcome environmental problems resulting from rapid industrialisation since 1970s. However, there is only one final disposal facility and thus, the treatment and disposal costs are relatively high. This situation explains much about the ongoing problem of illegal dumping that makes major news stories from time to time in the newspapers and other media.

#### 4.3.1 The Asian Financial Crisis 1997/1998

A number of scholars argue that the policy trends under Mahathir Mohamad only benefited foreign investors, the private sector and those politically connected with the Malay business (Gomez, 2004; Jomo, 2004). The mixture of racial and economic goals mediated by defensive *Bumiputera* policy had parenthetically ripened the system of crony capitalism<sup>122</sup> (Beeson, 2000), political nepotism<sup>123</sup> (Jayasankaran, 2003), and money politics<sup>124</sup> (Jomo, 1996) across the period. The cause for concern highlighted by a number of scholars is attributed to the lack of public disclosure, as the law itself permits a high degree of secrecy in government agencies (Jomo, 1996; Jomo and Tan, 1996).<sup>125</sup> It is argued that official sensitivity over information curtails access to and possession of information, subtly exercised to protect and advance the interest of the elites (Jomo and Tan, 1996).

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<sup>122</sup> An economic system in which family members and close friends of government officials are given preferential advantages in the forms of distribution of government procurement, business licences and so forth. This phenomenon is believed to arise when political cronyism spills over into the business world. It might be associated to political patronage, as in the case of Malaysia.

<http://dictionary.cambridge.org/dictionary/business-english/crony-capitalism>

<sup>123</sup> Favouritism granted in politics or business to relatives regardless of merit.

[http://www.scu.edu/ethics/practicing/focusareas/government\\_ethics/introduction/cronyism.html](http://www.scu.edu/ethics/practicing/focusareas/government_ethics/introduction/cronyism.html)

<sup>124</sup> Refer to the politics in business which includes the use of political influence and connections to further business interests and the use of government resources to advance particular interests of the ruling party (Jomo, 1996).

<sup>125</sup> The amendments to Official Secrets Act (1972) in 1986 extended the definition of official secrets to include, among other things, government tender documents (even after completion of the tender exercise) and any other documents or material that ministers and public officials may arbitrarily and unilaterally deem secret or confidential (Jomo and Tan, 1996). The classification of a document or other information as an official secret cannot be challenged in any court of law.

Critics argue that three factors were contributed to the corruption issues in Malaysia: (1) institutionalisation – business and politics become enmeshed through *Bumiputera* policy and the power of dominant elites (UMNO, MIC and MCA) and their business allies which turn into the ‘network of state-based money politics; (2) centralisation of executive power; (3) and privatisation (Hilley, 2001). It was argued that the legitimacy of the power bloc depends on the ability of the state apparatus to maintain political cohesion (ibid.). The dominant control posed by Mahathir constrained the development of public accountability, responsibility and governance but paved ways for corruption, abuse of power and economic mismanagement (see Beeson, 2000; Jayasankaran, 2003; Jomo, 1996; Sadler, 2003). This structure simultaneously impairs institutions for advancing governance mechanisms including CSR. The corruption index published by the Transparency International's Corruption Perceptions Index (CPI) (see table 4.1) revealed how bad the situation is and demands the state to address the problem earnestly.

The commanding height of the problem was prevalent during the Asian financial crisis in 1997/98 and the sacking of Anwar Ibrahim (former Deputy Prime Minister) in 1998, which subsequently eroded the performance legitimacy of the ruling regime. The strategy of increasing *Bumiputera*'s corporate wealth proved to be an ephemeral phenomenon since Malay corporate figures had to be ‘bailout’ and the number of bankruptcy cases among Malay entrepreneurs continued to rise, especially after the crisis (Ahmad-Farouk, 2012). It is claimed that the state had ‘bailout’ politically-connected individuals and corporations which faced financial trouble, either by requesting healthy corporations to ‘bailout’ troubled corporations (Nesadurai, 2000) or utilising a variety of discretionary funds to ‘bailout’ political allies (Sadler, 2003).<sup>126</sup>

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<sup>126</sup> Anwar had called for an independent audit of national reserves which have been used to bailout key politically-connected individuals during the crisis and as a consequence, he was sacked from his post on unsubstantiated charges of sexual misconduct (Sadler, 2003). With growing support from (NGOs) and opposition political parties, Anwar launched his ‘*reformasi*’ movement, aiming at reforming Malaysian politics by introducing democracy, good governance and social justice (Marzuki, 2007). Anwar was arrested under the ISA in late 1998 and remained in jail, without bail (Marzuki, 2007).



**Table 4.1: Transparency International Corruption Perceptions Index for Malaysia**

Year	Overall CPI Global Rank by Country	CPI Scores <sup>127</sup>
2001	36	5.0
2002	33	4.9
2003	37	5.2
2004	39	5.0
2005	39	5.1
2006	44	5.0
2007	43	5.1
2008	47	5.1
2009	56	4.5
2010	56	4.4
2011	60	4.3

Source: Transparency International 2001-2011

#### **4.3.2 Liberalisation and the Threat to the National Autonomy**

A wave to seek for international capital to promote socio-economic growth had become new developmental agendas among developing countries since 1980s. In Malaysia, the shift from laissez-faire policies to industrialised economies was outlined in NEP and further intensified under Mahathir's administration. The period saw the promotion of manufacturing industries, especially export-oriented industrialisation, agriculture and tourism, and small and medium scale enterprises (SMEs). The transition to industrialised economies was accelerated by the opportunity seen in the global capital market, which saw the industrial capitalists seeking out locations to out-source their productions (Drabble, 2000). The dependency on foreign investment has seen the introduction of the Promotion of Investments Act 1986 which aimed to encourage export-oriented manufacturing investment.

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<sup>127</sup> **CPI Score:** relates to perceptions of the degree of corruption as seen by business people, academics and risk analysts and ranges between 10 (highly clean) and 0 (highly corrupt).

The changes in the capitalist modes of production, driven by neoliberal ideology have underpinned the state form and social relations. This has simultaneously shaped the country's institutional frameworks that are often devised to facilitate the expansion of capital and to preserve Malaysia's competitive advantage. To accelerate the pace of industrialisation and to encourage foreign and local investment, the state has implemented substantial measures<sup>128</sup> by providing necessary infrastructure and facilities including; (1) cheap, docile and largely un-unionized labour (Jomo and Tan, 1996); (2) semi-skilled, women workers (Salleh and Meyanathan, 1993); (3) investment incentive package of cheap industrial land and pioneer<sup>129</sup> status; and (4) industrial estates and free trade zones<sup>130</sup> (Jomo *et al.*, 1995). The establishment of industrial estates and free trade zones<sup>131</sup> under export-oriented industrialisation program was important to the state because it generates massive factory employment opportunities for young Malays in a modern and expanding sector of the economy, regardless of the costs or benefits deemed to be derived from the policy (Jomo *et al.*, 1995). This was parallel to NEP which aimed to eliminate the identification of ethnicity with economic function.

The liberalisation of the domestic economy has gradually increased foreign investment (FDI) to the country. According to the UNCTAD's (United Nation Conference on Trade and Development) statistics, the FDI inflows had increased almost twenty-fold, from USD

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<sup>128</sup> To ensure the objective would be achieved, the government made it clear that the administration would be flexible and responsive to the particular needs of individual corporations would tailor incentives whenever possible.

<http://www.lowtax.net/lowtax/html/offon/malaysia/malinv.html> (assessed on 20/12/2011).

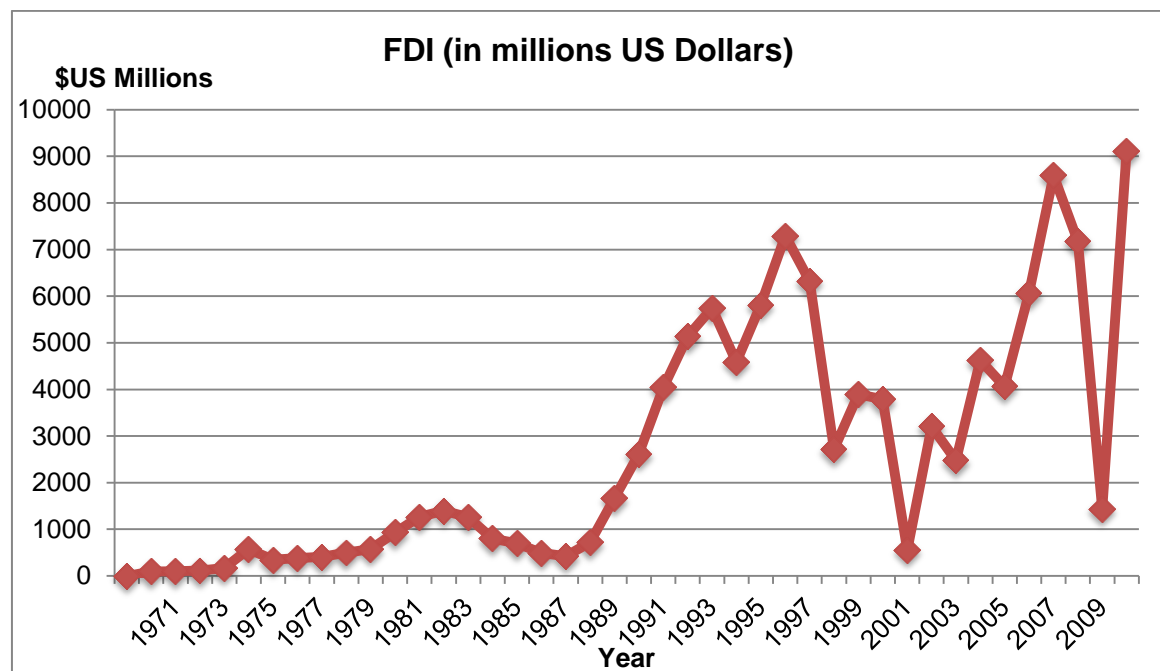
<sup>129</sup> Any company or person engaged in a "promoted activity" or the manufacture of "promoted products" is eligible for pioneer status. What constitutes a "promoted activity" or a "promoted product" is determined by the Minister of Finance and published in the Government Gazette. The pioneer status enables a corporation to obtain partial exemption from the payment of corporate income tax.

<sup>130</sup> To stimulate export-oriented industries, the free trade zones are established in designated geographic areas with minimal regulations, including minimum customs controls and formalities when importing raw materials, parts, machinery and equipment.

<sup>131</sup> The free trade zones are specially designated geographic areas with regulations, including minimum customs controls and formalities when importing raw materials, parts, machinery and equipment – specifically designed to serve export-oriented industries. Within this trade zones, goods are allowed to be imported without being subject to customs procedures, provided the goods are exported after processing. Two free trade zones have been established for trading purposes in Bukit Kayu Hitam, Kedah and Pengkalan Kubor, Kelantan. The third free trade zones have been established in Mukim of Plentong, Johor for commercial activities other than trading.

94 million dollars in 1970 to USD 2.6 billion dollar in 1990, although there was some fluctuation across the period (see figure 4.4). The growing increased of FDI inflows to the country demonstrate the continuing effort by the state to create conducive business environment for a private sector has been achieved. Although FDI continues to rise, albeit some fluctuation across the period due to the Asian Financial Crisis 1997/98, the bursting of the dot.com bubble in 2001 and the global economic crisis 2007-08; the country becomes less competitive in attracting foreign investment. The introduction of stimulus packages to revive the economy and efforts to strengthen governance framework are much needed to improve public and investor confidence following the financial crisis.<sup>132</sup>

**Figure 4.4: Foreign Direct Investment Flows to Malaysia, 1970-2010**



Source: UNCTAD, UNCTADstat

The country relied heavily on foreign investment to embark on state-sponsored heavy industrialisation, in the form of steel, cement, auto-assembly and motorcycle plants in

<sup>132</sup> Efforts undertaken to revamp the county's institutional structures are discussed in Section 4.5.1.

1980s. The state-led heavy industrialisation aimed at depending and diversifying the industrial structure through the development of *Bumiputera* enterprises and improving *Bumiputera* technological capabilities. This marked the establishment of the Heavy Industries Commission of Malaysia (HICOM) and the inauguration of Proton as a state-led automotive industry. Nevertheless, the economic downturn during the period has seen the state abandoned its commitment for heavy industry policy (Athukorala, 2010).

The contradictory roles of the state are reflected and sustained in the capitalist mode of production and through various forms of state administrative/bureaucratic modes of socio-economic regulation. The export-oriented industrialisation which focused on the availability of a cheap and compliant labour force, secured by severe regulation on industrial activities has often been justified on the grounds of either national integration or economic imperative (Wu, 2004, cited in Marzuki, 2007). Several austere measures were introduced, including circumscribed collective bargaining to the extent that the terms and conditions of employment may not be better than those defined under Part XII of the Employment Act 1955.<sup>133</sup> The amendment to the Act in 1988 further suppressed employees' welfare by allowing longer working hours than those stipulated by Employment Act 1955 and changing the definition of wages for the calculation of overtime to reduce costs (Kuruville, 2005).

The contradictory position of the states in maintaining and legitimating the economic capital whilst at the same time, preserving its own legitimacy has become increasingly apparent. As a means of state intervention measures, the state introduced the Petroleum Development Act 1974, the Industrial Coordination Act (ICA) 1975 and the Foreign Investment Committee (FIC) to mitigate the influence of external economic forces and

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<sup>133</sup> Laws on labour, environment and social security will be discussed in Section 4.5.

retain a degree of national policy autonomy (Jomo *et al.*, 1995; Torii, 1997).<sup>134</sup> The ICA gave the Ministry of Trade and Industry discretionary power over licensing, ownership structure, ethnic employment targets, and product distribution quotas (Jesudason, 1989). Besides, the FIC required corporations to hold at least 30% of *Bumiputera* equity whilst Bursa Malaysia's listing requirements required corporations to have at least 30% *Bumiputera* equity upon listing (Foreign Investment Committee, 2008).

### 4.3.3 The Outcome of *Bumiputera* Policy

The state-led capitalism and *Bumiputera* affirmative policy had produced both 'intended' and 'unintended' results, characterised by an expanding urban, educated middle-class and political stability (Marzuki, 2007). It could be observed that although the policies have been implemented within the context of the state's definition of poverty, it has led to social change and apparently redefined ethnic cleavage, raising the standards of living for the people and strengthened national unity. Facilitated by the economic growth (see Table 4.2), it came as no surprise to observe that the incidence of poverty by ethnicity decreased across the period, from 49 percent (1970) to about 4 percent (2009) (see Appendix 1-1).

While the policy was monopolised by those in power which has created a handful of Malay millionaires through patronage-based system, the average *Bumiputera* remained trapped with little prospect of social mobility. This is evident from national statistics which saw income inequality remain almost at the same level for the past 20 years (see Appendix 1-2). In 2012, the Gini coefficient<sup>135</sup> was 0.431 and in fact, inequality in Malaysia is among the highest in the region, when compared to Thailand (0.4), Indonesia

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<sup>134</sup> Scholars argue that the introduction of Industrial Coordination Act was aimed to strengthen the state control over Chinese and foreign investment, whilst the Petroleum Development Act was intended to establish unitary state control over oil resources (Torii, 1997).

<sup>135</sup> The Gini coefficient was used to measure the degree of concentration (inequality) of a variable in a distribution of its elements. The Gini coefficient ranges between 0, where there is no concentration (perfect equality) and 1 where there is total concentration (perfect inequality).

(0.37) and India (0.33) (The Star Online, 3 August 2013).<sup>136</sup> According to statistics, income growth has been strong only for the top 20% of Malaysian income earners, whilst the bottom 40% of households have experienced the slowest growth of average income (NEAC, 2010). The bottom income earners made less than RM1,500 per month in 2008, particularly in the rural areas (NEAC, 2010: 6), and almost 4% of all Malaysians and over 7% of rural Malaysians live below the poverty line (NEAC, 2010: 41).

**Table 4.2: GDP Growths in Malaysia, 1970-2010**

National Policy	Malaysian Plan	Average GDP Growth (annual %)	Average GDP Growth (Policy)
National Economic Policy	1 <sup>st</sup> Malaysian Plan: 1966 – 1970	6.11	6.78
	2 <sup>nd</sup> Malaysian Plan: 1971-1975	7.19	
	3 <sup>rd</sup> Malaysian Plan: 1976-1980	8.55	
	4 <sup>th</sup> Malaysian Plan: 1981-1985	5.15	
	5 <sup>th</sup> Malaysian Plan: 1986-1990	6.91	
National Development Policy	6 <sup>th</sup> Malaysian Plan: 1991-1995	9.47	7.23
	7 <sup>th</sup> Malaysian Plan: 1996-2000	4.99	
National Vision Policy	8 <sup>th</sup> Malaysian Plan: 2001-2005	4.76	6.11
	9 <sup>th</sup> Malaysian Plan: 2006-2010	7.45	

Source: World Development Indicators

In addition, critics argue that inequality also persists across different categories of resources including wealth, financial assets, real estate, investment assets and savings (Gomez and Kaur, 2014). For instance, in 2009, the bottom 80 percent of individuals holds only 5 percent of total financial assets whilst the top 20 percent holding nearly 95 percent of private assets and about 90 percent of Malaysians have no savings (Gomez and Kaur, 2014). Furthermore, although *Bumiputera* wealth ownership did increase from 2 percent in 1970 to 18.9 percent in 2004, the goal of 30 percent *Bumiputera* ownership has not been reached (see Table 4.3).

<sup>136</sup><http://www.thestar.com.my/Business/Business-News/2013/08/03/Malaysias-income-distribution-inequality-still-high.aspx> (assessed on 04/09/2013)

**Table 4.3: Percentage of Ownership of Share Capital, 1969 – 2004**

	1969	1970	1975	1985	1990	2000	2004
Malay	1.5	2.4	7.8	18.5	20.3	18.9	18.9
Other Malaysian*	23.7	28.3	29.1	49.1	45.9	40.4	40.2
Foreign	62.1	63.3	54.9	24.0	25.1	31.3	32.5

\* refers to Chinese and Indian ethnicities

Source: Nor-Zalina *et al.* (2010: 17)

Although efforts have been made to ensure equitable growth and eradication of poverty, such efforts remain uncertain. The problems remained on the corrupted collective societal values, which simultaneously escalated adverse values such as insensitivity, hypocrisy, power abuse and economic mismanagement at the expense of an underprivileged society. A system of patronage and rent-seeking amongst political allies has come under much closer public scrutiny, particularly with the rise of more independent media reporting over the internet (Asia Times, 2011). The national Auditor General Report for instance, has been trumpeted in the online news portals, regularly exposing revelations of wastage and mismanagement in public spending including leakage and cronyism-tainted spending.

#### **4.4 The *Bumiputera* Policy in the Era of Globalised World (2001 – 2010)**

The examination of the socio-economic and political environment of Malaysia so far has shown that the political and ethnic factors continue to shape developmental agendas in the era of globalisation. Besides, trapped within the framework of corporate-led globalisation, the state's regulatory framework is often directed to facilitate the condition for capital accumulation. In order to remain attractive, Malaysia is forced to join in the 'race to the bottom' – the race to lower protection for workers and environment; the race to shift the tax burden from the economic elite and the corporations to the ordinary people; and the race to roll back social programs and basic necessities (such as health,

housing and education) and to rely on the market to supply these needs (see Bakan, 2005). This has created a regulatory vacuum (governance gap), particularly in respect of governing business operation and advancing responsible business practices.

The ratchet down of regulatory regimes subsequently poses crucial questions about the ability of the state to enforce institutional structures crucial for promoting responsible business practices. Even though the state has enacted laws and regulations to address socio-economic issues, environmental regulations and other social protections for the benefits of its citizens, its actions are constrained by economic imperatives and the desire to attract capital. Yet, the enforcement of the laws, the capacity of the designated officers to ensure compliance and the lack of necessary infrastructure remain problematic, as national policies are only mere statements of claim and blatantly business-friendly. This could be seen from the strategy outlines in the National Vision Policy and the New Economic Model discussed next.

#### **I. National Vision Policy (NVP): 2001 – 2010**

Malaysia has continued to liberalise its policies on international trade and foreign investment in the 2000s. Further intensives to attract foreign investment including liberal tax policies and unrestricted profit remittances are introduced to enhance Malaysian position as strategic and cost-effective location for foreign investment. The trade liberalisation, combined with prudent macroeconomic and structural reforms in key areas has accelerated the economic recovery following the Asian financial crises in 1997-98. This strategy was outlined in the National Vision Policy (also known as *Wawasan 2020*), for the country to become an advanced industrialised nation by year 2020.

*“By the year 2020, Malaysia can be a united nation, with a confident Malaysian society, infused by strong moral and ethical values, living in a society that is democratic, liberal and tolerant, caring, economically-just and equitable, progressive and prosperous and in full possession of an economy that is competitive, dynamic, robust and resilient.”*

*(The Way Forward: Vision 2020)*



The changes in the capitalist modes of production, the intensity of globalisation and liberalisation and rapid development of technology, especially information and communications technology (ICT) demand a pool of highly-skilled knowledge workers. The 8th (2001 – 2005) and 9th (2006 – 2010) Malaysian Plan specifically outlines strategies to transform Malaysia into a knowledge-based economy, which focused on developing the country's human capital in order to facilitate industrialisation and achieve socio-economic growth. Besides, NVP continues to address poverty and equity ownership of *Bumiputera* in business sectors and strengthening domestic investment whilst developing national capabilities. When Abdullah took office in 2003, he continued with *Bumiputera* policy but put more emphasised in nurturing small-and-medium enterprises (SMEs). This includes cottage industries dealing with 'halal' products, dominated by poor rural Malays, and established Islamic-based financial services. However, critics argue that patronage-based was applied when SMEs programs were implemented (Gomez and Kaur, 2014).

However, it is claimed that the national vision set forth in the NVP is not based on accumulated national wisdom, culture and values or the needs of the people; rather, it is based on a Western neoliberal model of capitalism (Social Watch).<sup>137</sup> The main goals of NVP are industrialisation, economic growth, increased productivity and production of wealth. As such, the period has seen national policies continue to privilege capital accumulation. Hence, in a contemporary economic environment, the state is continue to enmeshed in conflicts and contradictions inherent in global capitalism which in turn, may mitigate the development of institutional structures crucial for promoting responsible business practices and public accountability.

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<sup>137</sup> <http://www.socialwatch.org/node/10798> (assessed on 30 November, 2013).

## II. New Economic Model (NEM): 2011 – 2020. The End of Protection?

The New Economic Model (NEM) focuses on domestic economic issues and political reform and based on three principles: high income, sustainability and inclusiveness as a catalyst to drive the country's economic progress to become a developed nation.

*“The New Economic Model must include a commitment to Sustainability, not only in our economic activities, but in considering the impact of economic development on our environment and precious natural resources. There is little value in pursuing a future based entirely on wealth creation. Pursuing growth that depletes resources and displace communities will have dire consequences for future generations.”<sup>138</sup>*

Nevertheless, the intensification of economic globalisation, competition from emerging economies and the pressure to build hegemony within the terms of a neoliberalism imposed constraints on pushing ahead with *Bumiputera* affirmative policies. The policy reforms during NEM period signify that Malaysia's race-based political and economic system has come under pressure as the country as the country struggles to cope with global market pressures and competition to attract foreign investment.<sup>139</sup> Such reforms include curtailing the powers of the Foreign Investment Committee, liberalisation of financial sectors, lowering the minimum quota for Malay ownership in publicly traded corporations from 30% to 12.5% and removal of the 30% *Bumiputera* quota requirement on new shareholding.

### 4.5 The Legal and Regulatory Framework in Malaysia

The Federal Constitution of Malaysia is the supreme law of the country, providing the legal framework for the laws, legislation, courts and other administrative aspects of law. It also encapsulates amongst other things – the basic human rights standards for the country. The principal provisions inscribed in Part II: Fundamental Liberties of the

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<sup>138</sup> Keynote address by Najib (Prime Minister) at Invest Malaysia 2010.

<http://malaysiafinance.blogspot.com/2010/03/new-economic-model.html>

<sup>139</sup> <http://thestar.com.my/news/story.asp?file=/2010/3/31/neweconomicmodel/5968223&sec>

[http://online.wsj.com/article/SB10001424052702304739104575154963045671060.html?mod=WSJ\\_latest\\_headlines](http://online.wsj.com/article/SB10001424052702304739104575154963045671060.html?mod=WSJ_latest_headlines)

Constitution *inter alia*, (Articles 5 – 13): (a) liberty of person (Article 5); (b) prohibition of slavery and forced labour (Article 6); (c) equality before law (Article 8); (d) freedom of speech, assembly and association (Article 10); and (e) rights in respect of education (Article 12).<sup>140</sup> The Articles take into consideration Malaysian socio-economic and political peculiarity, and are in the spirit of permissible national values, traditions, religions and customs. The constitution therefore lays down the foundation of the regulatory framework that promotes social responsibility and good governance in Malaysia (see figure 4.5).

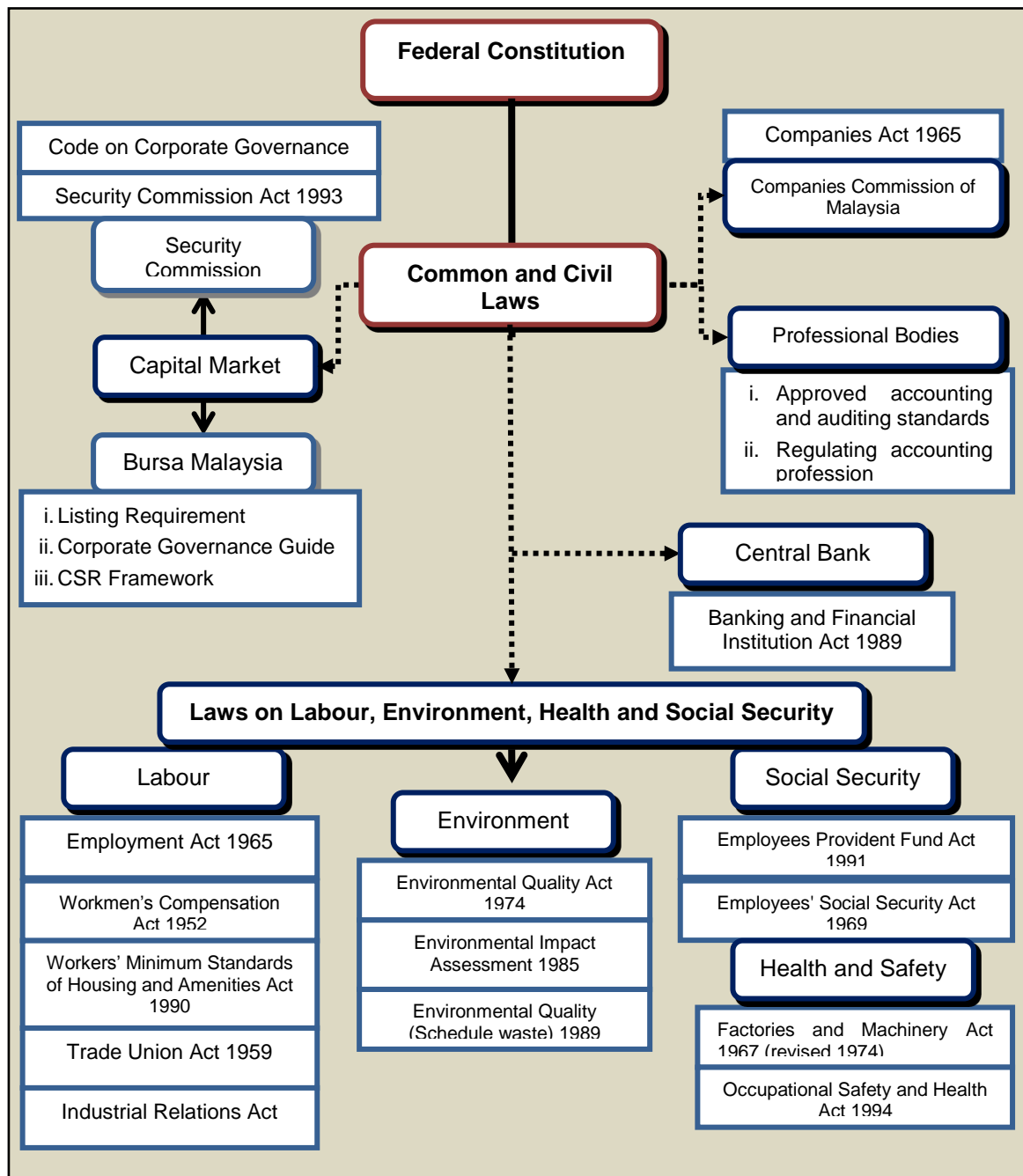
### I. **Laws on Labour, Environment, Health and Social Security**

A number of scholars argue that the choice of social policy is dependent upon the nation's historical trajectory, the types of regimes that accompanied growth and debates over social policy (Haggard, 2005). The firmly entrenched legal and regulatory framework during the colonial era provides Malaysia with a strong base for implementing and administering its socio-economic policies over the years. However, the choice of social policy in the post-independence era was influenced by the colonial socio-economic structure: deep class cleavages and economic discrepancies. To foster economic growth and to improve social development, the *Bumiputera* affirmative policy is socially institutionalised and considered as 'the best' way to manage a complex amalgam of Malaysian social and political life. Hence, the proliferation of CSR and its transformation in Malaysia must be understood in relation to the country's state-led capitalism over the period and the *Bumiputera* affirmative policy in the era of corporate globalisation.

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<sup>140</sup> While the liberties are guaranteed by the Constitution, it is pertinent to note that these rights are not absolute and hence are to be read in line with Articles 149 and 150.

Figure 4.5: The Regulatory Framework in Malaysia



#### a. Laws on Labour

The Department of Labour is responsible for the administration of labour laws in order to maintain industrial harmony. The *Employment Act 1955*<sup>141</sup> provides a comprehensive legal framework pertaining to employment in Malaysia and covers matters such as (1)

<sup>141</sup> The Act applies to Peninsular Malaysia and Labuan whilst Sabah and Sarawak are governed by their respective Labour Ordinance.

payment of wages, (2) maternity protection, (3) rest days, hours of work, holidays and other conditions of service, (4) termination, lay-off and retirement benefits and (5) employment of women except there is no requirement for minimum wage. The *Workers' Minimum Standards of Housing and Amenities Act 1990* provides that it is the duty of the employer to provide housing amenities, health, hospital, medical treatment, sanitation and social amenities for employees. The *Workmen's Compensation Act 1952* (revised 1982) applies to both foreign manual workers who earn up to RM 500 per month and Malaysian manual workers who earn up to RM400. The aim is to assist workers who have lost their ability to work due to an injury suffered in the course of their employment. However, effective from 1<sup>st</sup> July 1992, Malaysian workers are no longer covered under this Act but they are covered under the Employees' Social Security Act 1969.

The *Trade Union Act 1959* recognises the right of employees to form trade unions and enter into collective bargaining. The state upholds the concept of "tripartism" under which consultations on labour matters are held with employers' and employees' representatives to ensure that the interests of all concerned are taken into consideration. The *Industrial Relations Act 1967* governs the relationship between employers and employees and their trade unions and generally deals with prevention and settlement of trade disputes. The Act prescribes procedures relating to submissions of claims for recognition and scope and representation of trade union and collective bargaining. However, issues relating to corporate decisions such as promotion, recruitment, dismissal, transfer, retrenchment, reinstatement and allocation of duties and prohibition of strikes and lockouts are not allowed to be included in the proposal for collective bargaining. In addition, Part IV: Section 15 of the Act provides the protection of pioneer industries during the initial years of establishment for a period of at least 5 years from the date of commencement of operation in Malaysia against any unreasonable demands from a trade union.

Although laws on labour are in line with the International Labour Organisation (ILO) standards, some regulations have been adjusted to meet the needs of the country and export manufacturing industry. Critics argue that the laws governing industrial relations are *'largely restrictive and keenly enforced, with the government and the bureaucracy often quick to intervene in the face of a perceived threat to economic prosperity'* (Marzuki, 2007: 28). For instance, to curb industrial conflict that might threaten the interests of capital accumulation, the Trade Unions Act 1959 and the Industrial Relations Act 1967 are introduced to control trade union affairs and to control industrial labour relations policies (Kuruvilla, 2005; Marzuki, 2007). The industrial labour relations have weakened other laws pertaining to employment and thus, constrained the ability of the employee to demand his/her rights for health and safety, decent wages, fair pensions and employee benefit.

Besides, the country never ratified the International Convention on the Protection of the Rights of migrant workers. As such, there are certain grey areas on labour laws with regards to foreign workers such as overtime rates, trade union membership, unsuitable accommodation and the withholding of workers' passports which are not usually reported. These issues generally escape notice because auditors who monitor factory compliance are not in a position to question national labour standards.

#### **b. Social Security**

The *Employees Provident Fund (EPF) Act 1991* provides a compulsory savings scheme, which aims to ensure that employees will have some savings to draw on in the event of retirement or disability. The Act stipulates that an employer is obliged to contribute 12% of the employee's wages and the employee contributes 11% of the monthly wages to the fund. In the event of death, an employees' savings will be given to his/her nominated beneficiaries. However, domestic servants in general and certain expatriates and their employers are excluded from such contributions. Besides, the Social Security

Organization is responsible to administer, enforce and implement the *Employees' Social Security Act (SOCSO) 1969* and the *Employees' Social Security (General) Regulations 1971*. The organisation provides social security protection by social insurance including medical and cash benefits, provision of artificial aids and rehabilitation for employees to reduce the sufferings and to provide financial guarantees and protection to the family.

Nevertheless, critics argue that the present social protection and security remains problematic, particularly the adequacy of the EPF to provide retirement income and social insurance scheme to protect low wage earners (Saidatulakmal, 2009). The flaws in these schemes were exposed in the aftermath of the 1997/1998 crisis, including inadequate retrenchment benefits, increasing urban poverty and lack of insurance for both domestic and foreign workers (Saidatulakmal, 2009).

### **c. Occupational Safety and Health**

The Department of Occupational Safety and Health (DOSH) was established under the Occupational Health and Safety Act 1994 and under the administration of the Ministry of Human Resources. The department acts as a regulatory and monitoring authority entrusted to investigate and improve the situation of occupational health and safety including changes to legislation.

The *Factories and Machinery Act 1967* (revised 1974) is concerned with registration of machinery and the set-up of factories. Employers are required to provide a safe place and system of work for their employees. Any failure by the employer to take into account the provisions of this Act which results in injury to an employee will render the employer liable for the tort of negligence or for breach of statutory duty. The *Occupational Safety and Health Act 1994* extends the safety and health provisions covered by the *Factories and Machinery Act 1967*, by outlining the roles and duties of employers, employees and manufacturers in relation to safety and health at the workplace. The provisions aim to

introduce a self-regulatory system whereby employers and employees play prominent roles by setting-up compulsory safety and health committees. In order to promote high standards of safety and health at work, the Act provides a legislative framework that covers the appointment of enforcement officers, the establishment of the National Council for Occupational Safety and Health and the formulation of safety and health policies at the corporate level.

**d. Environment**

The Department of Environment (DOE) was established under the Environmental Quality Act 1974 and under the administration of the Ministry of Natural Resources and Environment. DOE is entrusted to implement principles contained in the National Policy on the Environment which aimed to promote continuous economic, social and cultural progress and enhancement of the quality of life of Malaysians through environmentally sound and sustainable development.

The environmental legislation passed in 1974 aimed to control industrial pollution, including wastewater, air pollution from factories and industrial waste problems. Before the enactment of the statute, Malaysia had no fundamental laws relating to environmental controls, and used different pieces of legislation to deal with environmental issues such as the Forest Enactment, Mining Enactment and Waters Enactment. The authority was therefore vested across a large number of government agencies, making it difficult to implement comprehensive environmental policies. In addition, there was no prescribed final disposal site for dealing with the increased stacks of scheduled wastes defined in the set of regulations and orders enacted in 1989 until 1997.

According to the *Environmental Quality (Scheduled Wastes) Regulations 1989*, solid wastes defined in the legislation as scheduled wastes can only be finally disposed of at



disposal facilities prescribed by the Director General of the Department of Environment (DOE). The *Environmental Impact Assessment Order (EIA) 1987* specifies that anyone who intends to carry out a developmental project (schedule of the EIA Order 1987)<sup>142</sup> is required to assess the impact of the project activities on the environment, health and social and propose mitigating measures to reduce the risk and impact of such activities on the affected parties. Nevertheless, there is no specific requirement under the Environmental Quality Act 1974 on the disclosure of environmental information to the public.

#### **4.5.1 Power in Shaping Regulations: Improving Governance Framework**

The examination of the socio-economic and political environment of Malaysia so far has shown that improving governance framework including advancing CSR takes hold during the processes of economic liberalisation and nation-building. Through Gramscian perspectives, it can be observed that the development of state-led capitalism in Malaysia involved the construction of *Bumiputera*; a direct response to the ethnic riots and social priorities of the economically disadvantaged but politically dominant Malay group and to build hegemony with the terms of neoliberal agendas.

In the aftermath of the Asian 1997/1998 financial crisis, the state undertook significant reforms to address governance and accountability issues, following substantial withdrawal of funds from Malaysian capital markets (Liew, 2006). This includes improving governance mechanisms crucial for promoting good governance, public accountability and responsible corporate behaviour. As stressed by Abdullah (2008);<sup>143</sup>

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<sup>142</sup> Nineteen categories of activities are subject to Environmental Impact Assessment including those related to agriculture, airports, drainage and irrigation, land reclamation, fisheries, forestry, housing, industry, infrastructure, ports, mining, petroleum, power generation, quarries, railways, transportation, resort and recreational development, waste treatment and disposal and water supply.

<sup>143</sup> Abdullah Ahmad Badawi's (5<sup>th</sup> Prime Minister) keynote address at the Malaysian CSR Award Ceremony in 2008. <http://www.anugerahcsr-malaysia.org/2008/02/16/congratulations-to-all-the-honourees/>

*"We want to make responsibility for the community part and parcel of our nation's corporate culture."*

The analysis of the national policy and regulatory framework signify the concern addressed by the state in promoting socially responsible behaviour. This could be seen from the initiatives made to incorporate CSR-related principles in the long-term development perspective of the country. Indeed, the state argues that there is a fit between the country's long term development and the promotion of CSR;

*"One of the hallmarks of our development agenda throughout the past half century is achieving economic growth with equity, particularly in terms of income distribution and poverty eradication. These socio-economic achievements, indeed, reflect the same set of positive values which form the backbone of social responsibility"*

*(Yakcop, 2007)*

The state formulated a National Policy on Climate Change and a National Green Technology Policy which addressed issues such as climate change, low carbon economy, green technology and sustainable development. To show the country's commitment to reduce its greenhouse gas (GHG) emissions, the state has established various machinery and mechanisms for smooth implementation to tackle greenhouse gas emissions and promotion of carbon trading in the country (The Star Online, September 26, 2009).<sup>144</sup> Malaysia made a pledge to reduce GHG emissions by 40 percent in 2020 at the United Nations Climate Change Conference 2009, Copenhagen (COP-15).

Besides a revamp on the country's governance framework, engagement from various social actors is essential to promote CSR. Such concern was explicitly mentioned in the Tenth Malaysian Plan (2011 – 2015) which seeks greater collaboration between the public sector, private sector and civil society to integrate and implement CSR initiatives.

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<sup>144</sup> <http://www.thestar.com.my/story.aspx?file=%2f2009%2f9%2f26%2fbusiness%2f4676903> (assessed on 04/09/2013).

This public-private partnership is expecting to contribute to the achievement of national development goals;

*“Successful partnerships will be extended, particularly between the Government and NGOs in welfare initiatives and between public and private sector in corporate social responsibility (CSR) programmes, such as in education and environmental conservation.”<sup>145</sup>*

To encourage private sectors to include CSR as a part of their business operations, the state has introduced several initiatives including CSR reporting requirements for public listed corporations, the launching of the Prime Minister’s CSR Awards in 2007, the introduction of tax incentives to business that implement broad CSR programs and the establishment of the Putrajaya Committee, which served as a catalyst to revamp government-linked companies (GLCs).

#### **a. Strengthening Capital Market**

A key player in the construction of CSR discourse is the Securities Commission (SC)<sup>146</sup> which responsible for promoting capital market development and streamlining regulations for the securities market in Malaysia. Critics argue that CSR is an extension of corporate governance which both address the sustainability of business through good business practices (Bidin, 2008). Both corporate governance and CSR could influence business strategy and reinstate elements of accountability and responsible business practices (Bidin, 2008).

To strengthen corporate regulatory frameworks and to raise the standard of corporate disclosures, the Malaysian Code of Corporate Governance was established in March 2000, which was largely derived from the recommendations of the UK-based Cadbury

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<sup>145</sup> The Tenth Malaysia Plan 2011-2015 (page 25).

[http://www.epu.gov.my/html/themes/epu/html/RMKE10/rmke10\\_english.html](http://www.epu.gov.my/html/themes/epu/html/RMKE10/rmke10_english.html)

<sup>146</sup> The Security Commission is a self-funding statutory body, incorporated under the Security Commission Act 1993.

Report (1992) and the Hampel Report (1998). The Code was later revised in 2007 to strengthen the roles and responsibilities of the board of directors, audit committee and internal audit function. In 2011, the SC launched the Corporate Governance Blueprint, which set out policies, strategic directions and detailed recommendations for strengthening corporate governance in the Malaysian capital market. To further strengthen governance mechanisms, the Malaysian Code on Corporate Governance was launched in 2012. The Code focuses on strengthening the board structure and composition and recognising the role of directors as active and responsible fiduciaries.

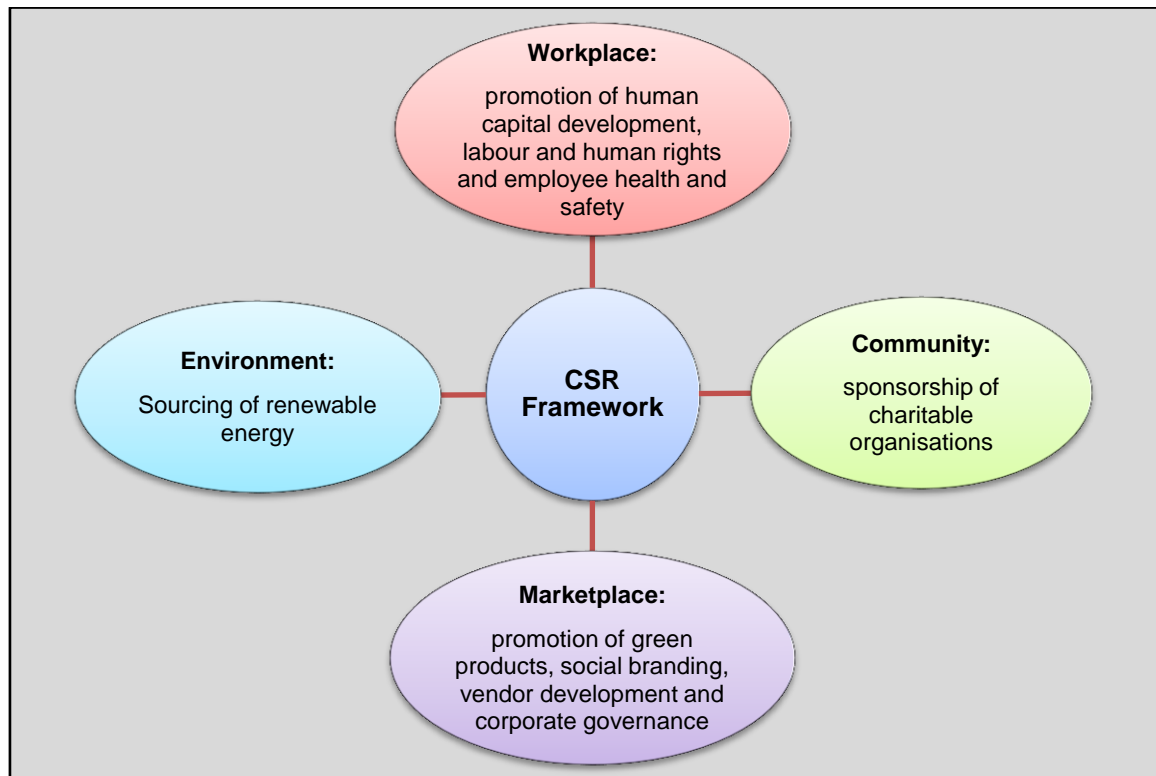
In addition, Bursa Malaysia also responsible in shaping CSR discourses through its role as the front line regulator for public-listed corporations in Malaysia.<sup>147</sup> It has launched a framework for the implementation and reporting of CSR activities in 2006, which is drawn from the national development policies. The revamp to Bursa's listing requirements has seen the requirement for public-listed corporations to include '*a description of CSR activities or practices undertaken by a listed issuer and its subsidiaries or if there are none, a statement to that effect*' in the corporate annual report.<sup>148</sup> Although the law does not specify what should be included in the report, Bursa has integrated four areas of CSR (see figure 4.6): marketplace, environment, workplace and community. The framework aimed to help corporations to develop meaningful CSR agendas, policies and initiatives based on their own realities. Nevertheless, the 'comply or explain' nature of the requirement makes it easy for corporations not engaging in CSR to meet the basic standard.

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<sup>147</sup> Bursa Malaysia is the country's stock exchange which provides and regulates corporate governance under its listing requirements which focuses on directors' roles and responsibilities, audit committee, internal audit function, disclosure of compliance with the Corporate Governance Code and the statement of internal control in the corporate annual report.

<sup>148</sup> Appendix 9C, Part A (29) of the Listing Requirements of Bursa Malaysia.  
[http://www.bursamalaysia.com/misc/system/assets/2961/regulation\\_rules\\_bm\\_main\\_LR.pdf](http://www.bursamalaysia.com/misc/system/assets/2961/regulation_rules_bm_main_LR.pdf)

**Figure 4.6: The Bursa Malaysia CSR Framework**



Source: Bursa Malaysia Sustainability Portal<sup>149</sup>

#### **b. Companies Commission of Malaysia**

The legal framework governing a corporation in Malaysia is broadly encapsulated in common law, which was based on regulations established during the British colonial period. The principal legislation governing company law in Malaysia is the Companies Act 1965, entrusted under the administration of the Companies Commission of Malaysia. Following the Asian crisis, a Corporate Law Reform Committee was established in 2003 to undertake a comprehensive review of the Companies Act 1965. The reform is aimed to reflect the current and future needs of the business environment. This led to the release of the Companies (Amendment) Act 2007 which introduced 24 new clauses including: provisions on duty and care, skill and diligence, related party transactions,

<sup>149</sup> Bursa Malaysia portal (assessed in December, 2012). [www.bursamalaysia.com/market/](http://www.bursamalaysia.com/market/)

statutory derivative actions, disclosure requirements and the prohibition of interested directors from voting, whistle blowing and auditor's duties.

Nevertheless, reporting is confined only to financial data with no reference to corporate involvement in CSR. The requirement is an integral part of corporate governance as it ensures the protection of the shareholders' interests. However, modern corporations are perceived as having both economic and social objectives and thus, should take into account the socio-economic and environmental consideration in their business decisions. Through the principle of 'trusteeship', corporate directors are perceived as trustees for various stakeholders, who include shareholders, employees, consumers, suppliers and the community in general (Bidin, 2008). The amendment to the Act – Section 132(1) in 2007 introduced a concept of 'business judgment' which provides provisions that allow corporations to engage in corporate philanthropy, provided that directors exercise the business judgment rule (Bidin, 2008).

### **c. The Role of Professional Bodies**

The development of accounting practices in Malaysia were marked by the passing of the Companies Act 1965 with sections on accounts and audit, and the establishment of professional accounting bodies such as the Malaysian Institute of Accountants (MIA) (Accountants Act 1967) and the Malaysian Institute of Certified Public Accountants (MICPA) (Companies Ordinances, 1940-1946). Several measures have been taken by professional accountancy bodies to improve the quality of reporting amongst corporations in Malaysia. For instance, the Malaysian Institute of Management (MIM), Malaysian Institute of Certified Public Accountants (MICPA) and Malaysian Institute of Accountants (MIA) have instilled the National Annual Corporate Report Awards (NACRA)

to promote high quality and transparent financial reporting in Malaysia.<sup>150</sup> In addition, the Malaysian Association of Chartered Certified Accountants (ACCA Malaysia) has organised an annual sustainability reporting award – the Environmental and Social Reporting Awards (MeSRA) (previously known as the ACCA Malaysia Environmental Reporting Awards). They also published sustainability reporting guidelines and ‘*Corporate Responsibility Guide for Busy Managers.*’

Although there are no specific standards issued by the Malaysian Accounting Standard Board (MASB) to disclose social and environmental information to the public, the Financial Reporting Standard (FRS) 1 makes a special reference to social and environmental disclosures and value-added statements, encouraging corporations to present further information if management believes it will assist users in making better decisions (Ramasamy *et al.*, 2007). However, such reporting is essentially voluntary in nature.

#### **d. The Revamp of the State Institution**

In order to demonstrate its commitment to achieve economic progress that is consistent with good personal values and corporate ethics, the state launched the Malaysian ‘Business Code of Ethics’ in 2002. During Abdullah tenure, he appeared to embrace democratic reforms and expressed his intent to curb patronage and deal effectively with corruption (Gomez and Kaur, 2014). The National Integrity Plan (NIP) is established in 2004, under the administration of the Malaysian Institute of Integrity.<sup>151</sup> The institute is entrusted to combat corruption, enhance corporate governance and to establish “*a fully moral and ethical society whose citizens are strong in religious and spiritual values and*

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<sup>150</sup> The objectives of the award are: (1) to promote greater and more effective communication by organizations through the publication of timely, informative, factual and reader-friendly annual reports; and (2) to recognize and encourage excellence in the presentation of financial and business information.

<sup>151</sup> The Malaysian Institute of Integrity was established as a company limited by guarantee under the Companies Act 1965.

*imbued with the highest ethical standards*" (National Integrity Plan: 18 para. 7). Nevertheless, the effectiveness of the institute in combating corruption remains to be seen.

To reinstate public confidence, The Malaysian Anti-Corruption Commission (MACC) was revamped in 2009 with the aim to increase efficiency, transparency and accountability and providing more avenues for the public to reveal corrupt practices to the authorities. However, the effectiveness and independence of MACC in conducting probes remains doubtful. It has been argued that only 68% of cases were successfully prosecuted by MACC whilst others ended up being categorized as 'no further action' (Malaysia Corruption News, July 2013).<sup>152</sup> Although there have been examples of prosecution of individuals including several prominent figures for criminal breach of trust, they were released due to lack of evidence.

In response to the upsurge of social discontent from both local and international groups about the country's poor human rights record, the Human Rights Commission of Malaysia (SUHAKAM) was established pursuant to Human Rights Commission Act 1999 (Lopez, 2007). In terms of international human rights standards, the Universal Declaration of Human Rights 1948 is explicitly mentioned in the Human Rights Commission Act, Section 4 (4). However, the Act states that, *'For the purpose of this Act, regard shall be had to the Universal Declaration of Human Rights 1948 to the extent that it is not inconsistent with the Federal Constitution.'* In this context, SUHAKAM had defined its human rights position in accordance with the limitations on basic liberties expressed in the Federal Constitution, and thereby embracing the state's relativist position (Lopez, 2007).<sup>153</sup>

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<sup>152</sup> <http://malysiacorruptionnews.blogspot.com/> (assessed on 04/09/2013).

<sup>153</sup> A number of scholars have challenged the constitutional and legal constraints had precedence over the basic rights promoted by the UN (Lopez, 2007). For instance, the liberty of a person can be curbed by the



### e. The Revamp of Government-Linked Companies (GLCs)

Generally, GLCs are under-performed and highly indebted than average, generating less profit per worker and earning a lower return on equity (The Economist, 2005). To revamp GLCs into a high-performing corporate entity, the transformation program was launched in 2004 as part of an ongoing effort by the state to foster the country's economic growth by enhancing the performance of GLCs. This is because GLCs are generally perceived by the state as a catalyst for change in the Malaysian corporate sector and they represent a big part of the economy: they comprise more than a third of the total market capitalization of Bursa Malaysia and collectively form half of the Kuala Lumpur Composite Index (KLCI) (Yakcop, 2007).

Khazanah Nasional is the key agency mandated to promote economic growth and to make strategic investments on behalf of the state, which presumably contributes towards nation-building. Khazanah is responsible for driving shareholder value creation, efficiency gains, enhancing corporate governance and monitoring the implementation of CSR by GLCs through its role as secretariat to the Putrajaya Committee on GLC High Performance (PCG)<sup>154</sup>. PCG outlines CSR initiatives for GLCs and GLICs to assist them in clarifying their social obligations and align with the business's overall strategy. The *Silver Book: Achieving Value through Social Responsibility* was published in 2006 and outlines a core area of contribution to society which includes: (1) human rights – supporting internationally proclaimed human rights; (2) employee welfare – implementing good employment practices for the benefit of employees; (3) customer service – meeting customer needs by supplying goods and services through exceptional services; (4) supplier relationship – working with business partners and suppliers to adopt socially

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ISA, while the Sedition Act and the Printing Presses and Publications Act limit freedom of expression. Besides, the freedom of assembly and association are hindered by the need to obtain police permits, whilst students in tertiary institutions and academia are restricted from active participation in social issues by imposing Universities and University Colleges Act (Lopez, 2007).

<sup>154</sup> PCG was formed in 2005 to design and implement comprehensive national policies and guidelines to transform GLCs into high performing entities and established an institutional framework to program, manage and subsequently oversee the execution of policies and guidelines.

responsible practices; (5) environmental protection – protecting the environment by minimizing environmental impact of business operation, products and services; (6) community involvement – engage in community development programmes; and (7) ethical business behaviour – promoting good behaviour practices and working against corruption.

The Silver Book articulates CSR policy to encourage GLCs to consider various stakeholders and social obligations issues in their corporate performance;

*“GLCs need to align the expectations of the Government, private investors, employees and consumers around the nature and extent of their contributions to society. It is critical that the GLCs clarify and manage these expectations to demonstrate the value they are creating from their contributions to society.”*

*(Silver Book, 2006: 2)*

The role of GLCs in fulfilling social obligations towards *Bumiputera* and the public as well as assisting underserved communities is specifically mentioned in the Green Book and the Silver Book. For instance, the Green Book states (2006: 22);

*“GLCs often have to carry social obligations such as providing universal access to basic services or develop a local and Bumiputera supplier base, even though it is uneconomical, or less than economical, for the GLC to do so. The Board should be engaged on the economic impact of these social obligations – including the benefits that the GLC derives (such as monopoly rights) and the actual costs associated with delivering the service.”*

GLCs are required to provide a report to the PCG and GLICs on the scope and contribution amount made to society and to adopt the GRI reporting standards. According to Khazanah’s Annual Report (2012: 21), RM255 million has been spent on CSR programmes since 2004, including RM62.4 million in 2012. The report mentioned Khazanah’s CSR initiatives and PCG’s CSR programmes, which are related to education and raising the standards of living in low-income households (Khazanah’s Annual Report, 2012). It was claimed that the GLICs and GLCs lead the way by following the Silver Book guidelines for contributions to society. They claimed to make positive

advancements in children's education with the PINTAR program (PINTAR's Annual Report, 2012), but their contributions are still concentrated in community investment. However, no further information was disclosed pertaining to the allocation of the funds. In addition, there was no information on possibilities for sanctions that Khazanah may impose if the guidelines are not followed by the GLCs.

**f. The Economic Planning Unit (EPU) and Ministry of Finance (MoF)**

The EPU and MoF set tax incentives to corporations and budget allocations for CSR targeted initiatives that implement broad CSR programs. It has been argued that the introduction of tax incentives over the years was to inculcate socially responsible practices. However, a review of CSR initiatives in Malaysia is limited in scope and mainly focused on corporate philanthropy, hampered by present institutional arrangements, which served to manage social disparities. At the top bureaucratic and political levels, private sector CSR award ceremonies and conferences receive patronage through the Prime Minister's CSR Award. In order to increase CSR initiatives in the country, the state introduced several tax incentives to instil CSR into corporate culture (see Appendix 1-4).<sup>155</sup>

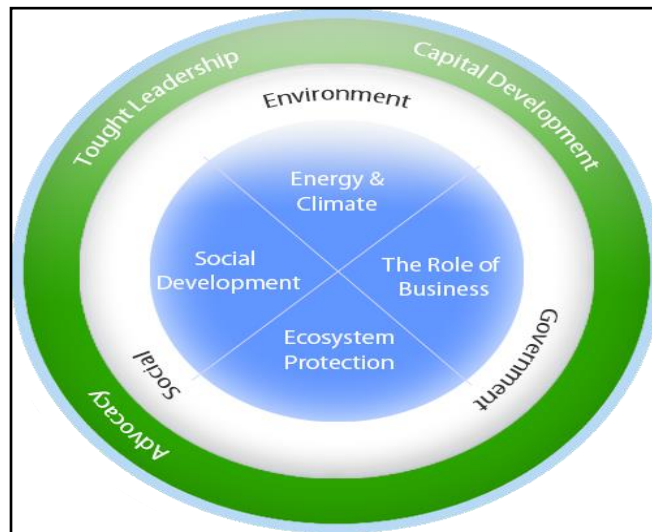
**g. The Business Council for Sustainability and Responsibility Malaysia**

The council is a national organisation, established in 2011 and comprises business leaders from various industries interested in responsible and sustainable practices in line with the global sustainability agenda. The council is a merger of the Business Council of Sustainable Development (1992) and the Institute of Corporate Responsibility Malaysia (2006). It focuses on national sustainability, governance and responsibility agenda (see figure 4.7). However, no further information is provided on the council website on how it would help the state and corporate sectors in CSR or sustainability agendas.

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<sup>155</sup> Appendix 1-4 lists Tax Incentives.

**Figure 4.7: The Business Council Sustainability Focus**



Source: The Business Council for Sustainability and Responsibility Malaysia

#### **4.5.2 Corporate Social Responsibility Initiatives in Malaysia**

The state plays a significant role in shaping governance framework in Malaysia; not only it initiates reform efforts but continues to influence regulations through its regulatory agencies. Through this structure, the state is able to address CSR-related issues whilst regulating institutional structures to foster the conditions for capital accumulation;

*“...the government’s priority is to ensure that businesses 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.”*

*(Yakcop, 2004)*

The Tenth Malaysian Plan recognises the importance of public and private partnership and how it could contribute to the achievement of national development goals, amongst other things, by providing equitable access to education, health and basic infrastructure and alleviating poverty.

### a. National Initiatives in Education

Education is a fundamental human right and it should be extended to every child regardless of sex, race or economic status. However, statistics revealed that over 100 million children around the world have no access to education; of which 96% are in developing countries (Bhanji, 2009). Despite economic prosperity and growth over the years, similar problems exist in Malaysia, where children from underprivileged communities are still left behind in terms of educational access and performance (UNICEF Malaysia, 2009).

In response, the state has arranged for additional educational support through the provision of a social safety net for disadvantaged groups, indirectly including children's welfare in the process (the Tenth Malaysia Plan 2011 – 2015). Since education serves as a catalyst for the country's transition to a high-income, the Education Blueprint outlines 11 actions to be undertaken, including equal access to education and partnering with the private sector. Through CSR-related programmes, the private sectors are encouraged to provide learning environments for all children, especially the most marginalised. In recognition that cost and access are problems for early childhood education, the Prime Minister stated;

*"I would like to urge the private sector to fulfil their corporate social responsibility by providing child care facilities at the work place for their employees."<sup>156</sup>*

Nevertheless, it has been argued that despite heavy spending on education and private-public partnership, Malaysia still lags behind other Asian countries when it comes to quality (Mahavera, 2014).<sup>157</sup>

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<sup>156</sup> Prime Minister's Office of Malaysia, Speech: "Opening address at Malaysian International ECEC Conference on 'Developing Human Capital Begins with Children.

<sup>157</sup> <http://www.themalaysianinsider.com/malaysia/article/low-quality-of-malaysian-education-more-alarming-than-household-debt-says-w> (assessed in March, 2014).

◆ **PINTAR (Promoting Intelligence, Nurturing Talent and Advocating Responsibility)**

In an effort to support the state initiatives to provide equitable access to quality education for all Malaysians, PINTAR Foundation was established in 2006. The Programme is a collaborative social responsibility initiative of the PINTAR Foundation, GLCs and other private corporations in Malaysia to foster academic and non-academic excellence, particularly for underprivileged children nationwide through the school adoption programme. 309 schools have been adopted and 31 corporations, including 15 non-GLCs involved in the programme (PINTAR's Annual Report, 2012).

**b. National Initiatives to Alleviate Poverty**

Initiatives are designed to assist disadvantaged communities including the poor, single mothers and the elderly to obtain a sustainable source of income.

*“The Government will implement programmes to assist the poor and vulnerable in order to reduce the poverty rate from 3.6% in 2007 to 2.8% in 2010” (Budget Report 2010: paragraph 111).*

Amongst the efforts undertaken is *Sejahtera Programme*, which aims to improve sustainable livelihood and poverty alleviation through active participation and collaboration with GLCs, GLICs and other corporations in Malaysia.

*“... to complement government efforts, GLCs and the private sector will be encouraged to provide houses through their CSR programmes.”<sup>158</sup>*

The programme claimed to provide an opportunity for the people to improve their livelihood through a variety of skills to help them break out of the vicious poverty cycle (PCG's Press Release, 2009).

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<sup>158</sup>The Tenth Malaysia Plan 2011-2015 (page 160).  
[http://www.epu.gov.my/html/themes/epu/html/RMKE10/rmke10\\_english.html](http://www.epu.gov.my/html/themes/epu/html/RMKE10/rmke10_english.html)

### c. National Initiatives in Empowering Graduates

The GEMS (Graduate Employability Management Scheme) programme focuses on equipping unemployed graduates with practical, market-relevant skills to enhance their employability. Based on the apprenticeship programme, GLCs and other public-listed corporations agreed to provide internship opportunities to train and develop participants (Khazanah's CSR Report, 2012). Besides information on the employment rate (83% in Phase 1), there is no information on the salary or wages paid to the participants over the course of the apprenticeship training.

In addition, to encourage greater corporate participation, the state introduced double tax deduction incentives for corporations that participate in the *Skim Latihan 1Malaysia* (1Malaysia Training Scheme) programme. Allowances and training expenses incurred will be entitled to a double tax deduction incentive.<sup>159</sup> The programme is collaboration between the state and the private sector to continuously contribute to CSR projects in order to enhance the employability of underprivileged graduates to help improve their lives and the livelihood of their poor families in the rural areas.

### 4.5.3 Discussion

The examination of the socio-economic and political quiescence in Malaysia alluded to the powerful entrenched systems of patronage in which *Bumiputera* policy plays a central role, the heavy and growing reliance on foreign investment to stimulate economic growth and the forms of relations between capital, state and society. The development of nation-building saw an odd blend of policies; a highly interventionist developmental state to ensure a smooth implementation of *Bumiputera* affirmative policy; and the neoliberal agendas which favours capital accumulation. Critics argue that although developmental state and neoliberalism are indeed; absolutely opposed to each other in terms of the role

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<sup>159</sup> Prime Minister keynote address at *Invest Malaysia 2012* Conference.

of state, they share a common trait: 'intimate state-business nexus' (Gomez and Kaur, 2014). A close partnership between the state and business is ostensibly to nurture domestic enterprises through a system of political patronage.

On the other hand, the review of the country's governance framework revealed that several laws and regulations related to CSR are in place, although difficulties are posed by the lack of general enabling environment. The state has addressed CSR issues as part of social and environmental sustainability strategies (see figure 4.8). However, the range of instruments is highly limited as public policy making is hampered by the present institutional structures which serve to manage social disparities and have affected Malaysia ever since. In this context, the articulation of 'social responsibility' in the public sphere perhaps has been roped in to allay the fears of those concerned about social inequality, environmental wellbeing, power abuse and economic mismanagement which have been trumpeted during the Asian financial crisis.

Besides, initiatives taken might be attributed to the need to improve investor confidence and to attract the rapidly growing global socially responsible investment market that would foster the country's economic development. As stressed by the Securities Commission (2005);<sup>160</sup>

*“Good CSR practices will enable companies to attract better quality investors and to better meet the challenges posed by increased competition for markets and capital... resulting in improved reputation and branding of Malaysian companies, whose enhanced performance will contribute towards our goal of establishing a premier capital market that will play a significant role in generating greater economic growth for Malaysia.”*

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<sup>160</sup> Speech given by Dato' Zarinah Anwar, Deputy Chief Executive of the Securities Commission at Lex Mundi Asia Pacific Regional Conference, Kuala Lumpur.



Figure 4.8: The Development of CSR in Malaysia

Event	Prime Minister	CSR-Related Development
	Prior 1991	Laws and regulations related to CSR are in place.
National Vision Policy	1991	Vision 2020 was tabled in a Parliament.
	2000	Malaysian Code on Corporate Governance introduced.
	2001	Financial Sector Master Plan reform – includes elements of corporate governance.
	2002	<ul style="list-style-type: none"> <li>• Business Code of Ethics</li> <li>• ACCA MaSRA award.</li> </ul>
	2004	<ul style="list-style-type: none"> <li>• The revamp of GLCs</li> <li>• National Integrity Plan</li> <li>• Silver Book – CSR guidelines for GLCs.</li> </ul>
	2006	<ul style="list-style-type: none"> <li>• Bursa Malaysia CSR framework (mandated reporting 2007).</li> <li>• Institute of Corporate Responsibility Malaysia</li> </ul>
	2007	<ul style="list-style-type: none"> <li>• Malaysian Code on Corporate Governance reviewed.</li> <li>• Prime Minister's CSR Award.</li> </ul>
	2008	StarBiz-ICR Malaysia Corporate Responsibility Awards
	2009	Revamp of MACC
	New Economic Model	2010 Najib Razak

To encourage socially responsible investment, two ethical funds were set up by the government in 2003 to promote investment in companies which are not just profitable, but also must not be involved in tobacco, liquor and gambling as well as having socially accepted practices such as good corporate governance and environmental friendly (Yakcop, 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.

Nevertheless, the overriding desire to attract and retain foreign investment has forced the state to provide an environment conducive for business whilst at the same time,

managing the socio-economic benefits for the public. Despite the state continuing efforts to advance CSR, it remains as a soft law;

*“The Government strongly supports the adoption of voluntary CSR reporting and standards as we believe that regulations should not interfere with private sector's progress and initiatives within a voluntary framework.”*

*(Yakcop, 2004)<sup>161</sup>*

This present structure has simultaneously affected the ability of the state to establish and enforce necessary institutional structures for promoting social responsibility, public accountability and governance. In this context, the relationship between the state and civil society is characterised by tension and conflict, inherent in the capitalist system. Perhaps the proliferation of CSR agenda is to fill the vacuum in the country's regulation following from the liberalisation and deregulation of domestic economy in favour of the neoliberal market mechanisms.

#### **4.6 The Civil Society and Media in Malaysia**

In order to maintain legitimacy of the ruling regime and to control public life and civil society, the state used several colonial rules and administration to suppress civil society liberty and movement. In addition, the ethnic-based developmental policies have inhibited the formation of robust civil societies in Malaysia and as a consequence, civil society groups are established based on ethnicity and focus on a different range of issues (Case, 2003). For instance, Chinese and Indians groups are generally committed to human rights, women's issues, consumer protection and environmentalism,<sup>162</sup> whilst Malay communities are more focused on securing ethnic quotas or Muslim codes<sup>163</sup> (Case, 2003).

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<sup>161</sup> *CSR and SRI: The Way Forward for Malaysia* at the Corporate Social Responsibility conference, CSR: Creating Greater Competitive Advantage.

<sup>162</sup> The examples are Aliran, Suaram (Suara Malaysia – Voice of Malaysia), the Consumer Association of Penang and the Environmental Protection Society of Malaysia.

<sup>163</sup> Examples include ABIM (Angkatan Belia Islam Malaysia – Islamic Youth Movement of Malaysia) and JIM (Jemaah Islam Malaysia – Malaysian Islamic Congregation).

#### 4.6.1 The Civil Society

Several measures were put in place to curb civil liberties of communication and assembly. For instance, restrictions were imposed on registration of societies, placing bans on workers and students and muffling the media with licensing requirements and ownership patterns (Case, 2003). These include restrictions on the right to association (Societies Act 1966) and suppression of student activism (University and University Colleges Act 1971). Taking advantage of the Malaysian multi-racial society, the Sedition Act 1948 (Revised 1969) was put in place to curb criticism of state policies or to curb expressions that could incite ethnic hatred and social disorder.

The implementation of several instruments has consequently limited democratic participation of society and constrained the possibility of public scrutiny against the state and thus, weakened demand for public accountability and social responsibility. In addition, the state used the British Ordinance 1948 (formerly implemented to combat armed insurgency of the communist in Malaya) against people who are believed to threaten national security through preventive detention (Internal Security Act 1960).<sup>164</sup> In this climate, the scope for mobilisation of social groups was progressively restricted, while the state powers increased disproportionately.

To strengthen the state's control over labour movements, central union federations such as Malaysian Trade Union Congress (MTUC) and Congress of Unions of Employees in the Public and Civil Services (CUEPACS) were incorporated as societies, to ensure that unions would not constitute a significant opposition to the state and threaten capital accumulation (Kuruvilla, 1995). The labour regulations have weakened unions and thus, circumscribed considerably the power of unions to organise and demand employees'

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<sup>164</sup> The ordinance repealed when the Malayan Emergency ended in 1960. However, the preventive detention was retained under Article 149 of the Malaysian Constitution and the state passed the Internal Security Act (ISA) in 1960. The Act gave power to the police to imprison civil person indefinitely without charge or trial. Nevertheless, due to domestic and international pressure, the Act was replaced by the Security Offences (Special Measures) Act 2012.

rights and perhaps, hinder the development of responsible business practices in Malaysia.

Nevertheless, circumstances changed after the financial crisis and the arrest of Anwar in the late 1990s, which saw society display a new aptitude for cooperation and activism (Case, 2003; Weiss, 2003). The course of globalisation and the rise of communication technologies have increased interconnectedness, provided an opportunity for Malaysian society to get connected and collaborate across boundaries with ease. The collaboration of Malaysian civil society and pressure groups<sup>165</sup> at the international level on issues such as human rights, women's rights, indigenous people's rights, the environment and labour may suggest increased public scrutiny against the abuse of power by the state and corporations and increased demand on social responsibility and public accountability.

#### **4.6.2 The Media**

The media plays a crucial role in a democratic society, supposedly acting as intermediary vehicles that reflect public opinion, respond to public concerns and make the electorate cognizant of state policies, important events and viewpoints (Klaehn, 2002). However, mass media is used as a political tool to '*manufacture consent*' for socio-economic and political agendas, legitimising dominant ideological principles and social institutions by systematically defending the interests of the state and private activity (Herman and Chomsky, 1988 in Klaehn, 2002: 162).

Whilst the news conveyed to the public is perceived to be 'true', the processes are shaped by the 'filter elements' which impact upon what becomes news (Klaehn, 2002; Mullen and Klaehn, 2010). The filter elements are (1) the ownership, size and profit

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<sup>165</sup> The Malaysian civil society groups includes non-governmental organizations (NGOs), networks of public intellectuals, trade unions, students, unaffiliated activists and politically engaged religious associations (Weiss, 2003).

orientation of mainstream media; (2) advertising as the primary income source of the mass media; (3) mainstream media's routine reliance on agents of power as the primary definers of social reality; (4) organized flak that represents a mechanism of social control; and (5) ideological forces deployed and adapted to correspond to elite interests (Herman and Chomsky, 1988 in Mullen and Klaehn, 2010: 218; Klaehn 2002).

In the case of Malaysia, legislation to control mass media is much influenced by colonial heritage, where the purpose and structure of the media during the period was to control social movements (Anuar, 2005). The state's control over the media is justifiably necessary in the context of national development, national security, protecting and promoting law and order and to ensure that the media does not fall into the 'wrong hands' (Anuar, 2005). The responsibility of the media therefore is presumably to be a partner of the state in the collective project of nation-building and through which state-led capitalism and *Bumiputera* hegemony are expressed.

As the levers of power are in the hands of a few people, the monopolistic control over the media is supplemented by official censorship, making clear that the media serves the ends of ruling regimes. The mainstream media is largely controlled by corporate proxies for the ruling party,<sup>166</sup> acting as the main propaganda apparatus to promote the state hegemonic influence over society or as a semi-privatized appendage of the information ministry (Anuar, 2005; Sadler, 2003). To ensure the media acts as government mouthpieces, several laws were put in place to severely curb freedom of expression and freedom of the press. The Printing Presses and Publications Act 1984 and the Broadcasting Act (1988) constrain the role of the media as disseminator of information and watchdogs over despotic government and corporate power. The Official Secrets Act

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<sup>166</sup> The government control over the mainstream media began in the period of NEP which produced a group of politically well-connected corporations. The radio and television has been owned and controlled by the government since its establishment and are put under the administration of the Ministry of Information (Kim, 2001).

1972 further suppresses freedom of speech and obstructs peoples' rights including journalists, whose professional duty is to comment and uncover state mismanagement and incompetence (Anuar, 2005; Kim, 2001). The circumstances threaten freedom of the media and its credibility as guardians of the public interest and thus, limit the role of the media to uncover corruption, mismanagement, power abuse and unsustainable development in the state policies and corporate activities.

Nevertheless, the increased exposure of a patronage-based system, rent-seeking and corruption amongst politicians and the elite has increased public scrutiny against the state and thus, driven people to alternative media<sup>167</sup> and the internet. Alternative media and the internet have become and remains the 'go-to' source of information amongst those who care for freedom of expression and wider democratic space (Anuar, 2005). Nevertheless, the role of media in promoting social responsibility and public accountability in a contemporary Malaysian society remains yet to be seen.

#### **4.7 Summary and Conclusion**

Corporate social responsibilities, similar to any other social practice, do not operate in a social vacuum. There are forces from both local and global structures that may promote or impede the development of CSR. The process involves the interrelations between institutional structures and various social actors. The development of CSR therefore should be considered in the context of a dynamic and evolving process of domestic norm-setting, bearing in mind the significance of national particularities in a contemporary economic globalisation. The chapter demonstrates that CSR in Malaysia is not simply a social phenomenon but intertwined with the dynamics of a wider political and socio-economic context and power relations in society. This supports the contention

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<sup>167</sup> The alternative media in Malaysia mainly comprises of newspapers and magazine published by NGOs, activists and opposition political parties.

by Hopper *et al.* (1987) that accounting development including CSR has been implicated in broader ideological and political struggles in society.

This chapter examined the history, socio-economic and political environment of Malaysia, highlighting a complex amalgam of racial and economic goals that may promote or constrain the development of institutional structures for advancing CSR in Malaysia. Periodisation of Malaysia's historic bloc illuminates how the British colonial policies sow the seeds of conflicts between the ethnics groups, the changing character of both modes of socio-economic development and the state intervention. It highlighted the development of *Bumiputera* hegemony, which later has been socially institutionalised within the power-knowledge relations and predatory state power. The *Bumiputera* affirmative policy sought to address the economic status of *Bumiputera*; an espoused prerequisite to achieve national unity, social cohesion and stability. Within such social order, institutional structures contribute to the articulation of hegemonic ideology, wherein *Bumiputera* policies are considered as legitimate and further shaped the conceptions of social and political reality of Malaysian society.

To maintain hegemony in social order, the authoritarian rule is seen as necessary to transform Malaysia into a developed country. Along *Bumiputera* policy, privatisation and liberalisation plans were established not only to encourage foreign investment but also as a tool for the promotion of *Bumiputera* capitalists. The process however, gave genesis to the spread of crony capitalism, corruption and abuse of power for the benefit of the ruling capitalist class. Nevertheless, it is important to recognise that, while the Malaysian variance of developmental model may have been distorted by contingent ethnic factors and the need to maintain a regime predicated on patronage, the legitimacy of the authoritarian roles is maintained through consistent economic growth and maintenance of racial harmony.

The complexities of neoliberal states in both developed and developing countries also enlighten the operation of Malaysia that privileges capital accumulation at both domestic and international levels to stimulate economic growth and social development. Moreover, the contradictory position of the state in acting on behalf of the capitalists has seen its economic policies and institutional structures are often devised to facilitate and enable the conditions for capital accumulation and economic growth in both domestic and international economy (see Harvey, 2005). Nevertheless, the increasing integration of the country into the global economy posed considerable challenges to the country's race-based political and socio-economic system. In the wake of the Asian financial crisis, the state has faced challenges that have come from a diverse range of civil society groups who are concerned with unequal economic development, environmental degradation, social unrest, power abuse and economic mismanagement. In response, the state has enacted various laws and regulations to safeguard the socio-economic benefits of its citizen. However, the enforcement of laws and regulations, the capacity of the state officer to ensure compliance and insufficient necessary infrastructure remains problematic.

The literature increasingly addressed the role of civil society groups and the media in articulating demand for social responsibility and accountability. In the case of Malaysia where civil liberties of communication and assembly have been curbed, and where the print and broadcast media are largely controlled by political interests connected to the ruling coalition, the role of civil society groups and NGOs is indeed, important. In this situation, the civil society groups and NGOs can serve as watchdogs against abusive corporate and government power and linking people of diverse backgrounds but common interests in promoting a greater sense of civic rights and responsibilities among Malaysian people.



This chapter has considered the impact of the socio-economic and political arrangements on the institution of CSR in Malaysia. It can be observed that the state interventionist policy has always strived to maintain the accumulation of capital, mediating between national interests and global forces, whilst at the same time attempting to establish the basis for its own legitimisation. As the country is enmeshed with conflicts and contradictions over the accumulation of capital, the ability of present institutional structures to advance public accountability and social responsibility remains problematic. This study attempts to frame these interrelationships within the context of Malaysian historic bloc, as the country's socio-economic policy (including CSR) is intimately related to its domestic setting.

The analysis shows how various mechanisms have been put in place to support *Bumiputera* policy, particularly on how conflicts are settled and how corporations are owned. This capitulates heavily to subsequent development of CSR, which is shown to be generally aligned to the state's developmental agendas. However, the range of instruments is highly limited as public policy making is hampered by the present institutional structures which serve to manage social disparities and capital accumulation. Besides, it can be implied that the country's socio-economic and political environment is characterised as possessing systemic imbalances in the distribution of power, influence and skewed patterns of income distribution.

Chapter 5 presents CSR practices and disclosures from the view of corporations in Malaysia.

## CHAPTER FIVE

### CORPORATE SOCIAL RESPONSIBILITY – THE VIEWS FROM CORPORATIONS

#### 5.0 Introduction

Chapter 4 drew particular attention to the social, economic, political and historical structures which provide the context for the analysis of CSR in Malaysia. The analysis shows how *Bumiputera* hegemony is socially constructed and rationalised as institutionalised practice; and further shaped the socio-economic and political outcome. It reveals the domestic power relations, in which the political elites emerged as sites of power for capital accumulation and the role of the state in strengthening the *Bumiputera* policy, orchestrated through various mechanisms in later years. The state intervention in the economy, manifested through authoritarian rule and various mechanisms has shaped societal values and affected social and environmental outcomes, while CSR has been rationalised as institutionalised practice. It also has been argued that the present institutional structures and regulatory framework have become subordinated to sustain capital accumulation at both domestic and global levels. Hence, the effectiveness of the institutional structures in promoting socially responsible practices remains problematic.

CSR is viewed as a social phenomenon that is intertwined with the dynamics of a wider political, socio-economic context and power relations in society. This chapter aims to take this analysis further by investigating three sample cases which feature different shareholding structures: (1) GLCs; (2) Family-owned; and (3) MNCs. The chosen sample cases would help in gaining understanding on how the institutionalisation of *Bumiputera* policy influenced the behaviour of CSR actors and simultaneously shape corporations understanding and production of CSR in Malaysia. The analysis would provide insights on how CSR is understood within broader institutional environment in which it is embedded and within the course of organisational life.

Since CSR is viewed as socially constructed practice, in which corporations and other actors describe, explain or account for environmental and social problems, it becomes irrelevant to compare the reports with one another or to seek consistent or findings that are fully generalisable. For the purpose of this study, the analysis focuses on understanding how meaning *might be* socially constructed in relation to four possible perspectives of CSR:<sup>168</sup> (1) environmental responsibility; (2) employee welfare and management; (3) community involvement and development; and (4) responsibilities to the state. Based on Gramsci's hegemony and capitalist crisis, these four perspectives are used as sensitising lenses to understand corporate 'talk' about CSR, how CSR is being constructed in the reports (what kind of elements or activities are included for each CSR pillars), how corporations report on conducted activities and how corporations role in the society is being portrayed in the discourse.

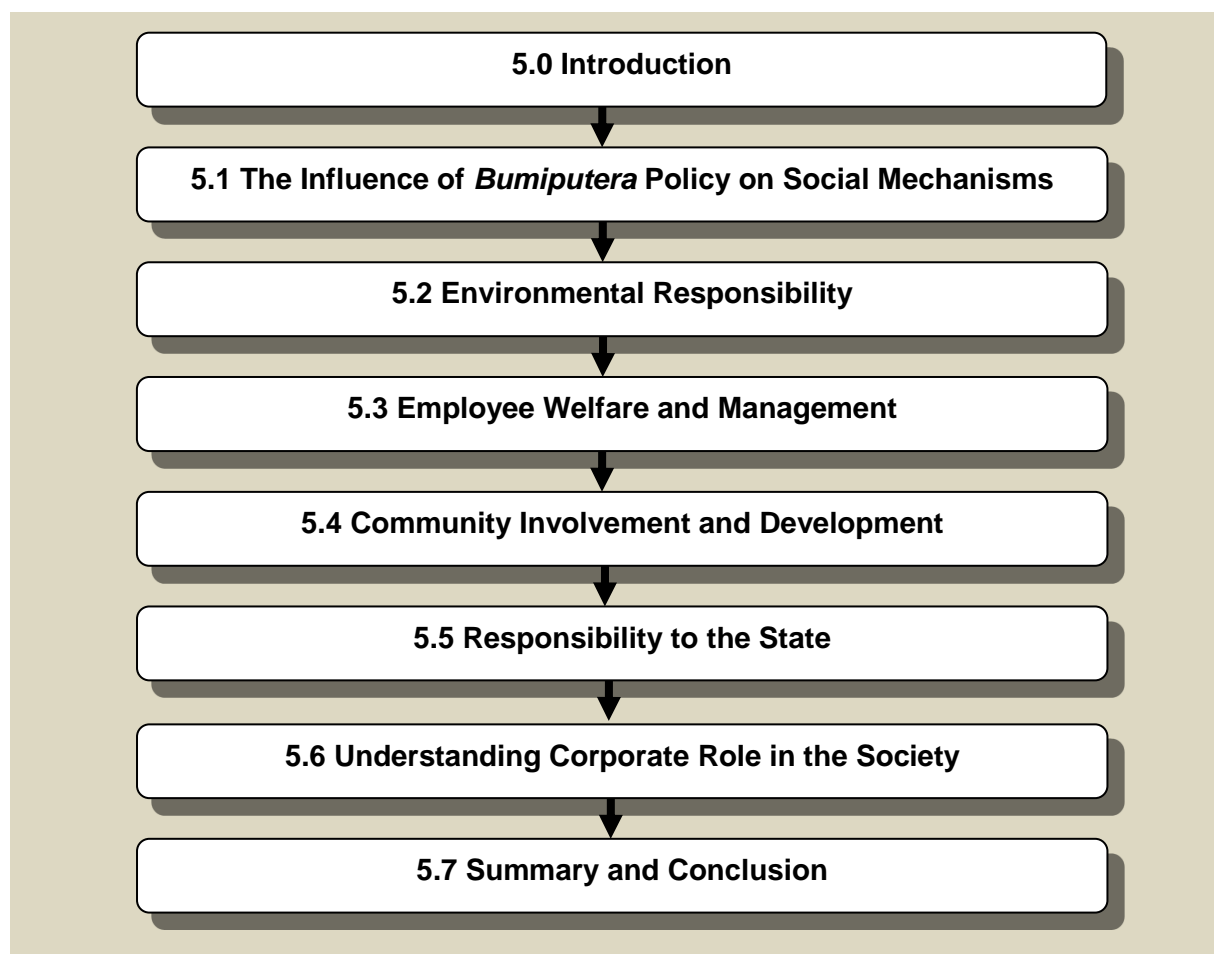
The data for this study comes mainly from the corporate reports and documents and supplemented by third party reports (e.g. Friends of Earth) and interviews with one corporation. The summary of corporate profiles is presented in Appendix 2A – B. The corporate reports and documents represents on how corporations perceive of and understand CSR and provide evidence on how they integrated CSR elements into their daily corporate activities. Nevertheless, the systemic pressure to increase profits may make social and environmental considerations vulnerable, threatening promises made to act in a socially responsible way. In this context, CSR is seen as socially constructed and continuously produced, contested, reproduced and negotiated, through various social interactions.

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<sup>168</sup> These four CSR pillars are drawn from the review of extant literature and have been discussed in Chapter 2.

The remainder of the chapter is organised as follows (see figure 5.1 below): section **5.1** looks into how *Bumiputera* policy shaped governance structures of corporations which subsequently shape corporate understanding and production of CSR. Section **5.2** provides an analysis of how corporations ‘talk’ about *environmental*-related initiatives, focusing on three sample cases: Telekom Malaysia Berhad (TM), IOI Corporation Berhad (IOI), and British American Tobacco Malaysia Berhad (BAT). Section **5.3** provides an analysis of *employee welfare and management* initiatives at TM, IOI and BAT. Section **5.4** provides a discussion about *community involvement and development* initiatives at TM, IOI and BAT. Section **5.5** provides an analysis of how corporations (TM, IOI and BAT) ‘talk’ about their *responsibility to the state*. Section **5.6** provides a discussion on how corporate role in the society is being portrayed in the reports. Section **5.7** provides a summary and conclusion of the chapter.

**Figure 5.1: Structure of Chapter 5**



## 5.1 The Influence of *Bumiputera* Policy on Social Mechanisms

Previous chapters illuminate that the development of CSR is considerably shaped by the wider political and socio-economic context and power relations in society. The advent and promotion of *Bumiputera* policy saw a highly interventionist developmental state, aiming to tilt the playing field in favour of the *Bumiputera*. The state is able to implant a 'common sense' that improving *Bumiputera* economy is of prime importance and crucial to promote social cohesion, political stability and to achieve national unity. Amongst the state aspirations outlined in the national policy are to correct the imbalances in the corporate sector participation and to increase the percentage of *Bumiputera* directors on public-listed corporations. This has influenced the governance structure of corporations, including the appointment of corporate board members and senior management.

Corporate governance defines the authority structure of corporations and it reflects the notion of power (Gourevitch and Shinn, 2005). It affects the creation and distribution of wealth and mirrors the policy choices, which in turn, is shaped by a mixture of rules, laws, regulations and enforcement (ibid). This section is not about the underlying structures of corporate accountability but rather interested to shed some lights on the role of the state in shaping governance framework. It has inter-relatedly influence the way social actors perceive *Bumiputera* policy, which then shape corporations understanding and production of CSR. Besides, it is crucial to understand on how corporations in Malaysia adopt and transform CSR within the course of organisational life and in line with the development strategy and the interests of the state.

### 5.1.1 Telekom Malaysia Berhad (TM)<sup>169</sup>

Telekom Malaysia Berhad (TM) is one of the leader in the integrated information and communications services and solutions in broadband, data and fixed-line solutions in

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<sup>169</sup> Please refer to Appendix 2-A1 for the brief history of TM.

Malaysia and South-East Asia.<sup>170</sup> TM is a provider of Malaysia's fixed line telephony network and has considerable market share of mobile communications market.<sup>171</sup> TM is listed on Bursa Malaysia stock exchange on November 7, 1990 and has a market capitalisation of RM17.7 billion.<sup>172</sup> It has more than RM9 billion revenues, total assets of over RM41.8 billion and employed 27,257 employees spread across the country.<sup>173</sup> The group has subsidiaries, associates and strategic business units in Indonesia, Hong Kong, U.S.A, U.K., Bangladesh and Sri Lanka and primarily operates in Malaysia, with its headquarters in Kuala Lumpur.

Although TM is privatised in the 1990s, the state remains the majority shareholder<sup>174</sup> and owns a '*special share*'; making the state sanction necessary on major policy decisions deemed to have national interest implications (Naidu, 1995: 206-207). The MoF is the special shareholder pursuant to the Article 109 of TM's Articles of Association, whilst the majority shareholder is Khazanah. To safeguard the state's interest, the appointment of TM's board members and senior management are made by the MoF pursuant to Article 98(1) of the Company's Articles of Association. This existing shareholding structure provides a sound mechanism for the state to exert control over TM and telecommunication industry. It could perhaps be implied that such control is necessary since TM also act as mechanisms for the state to pursue its political interests, economic development and aspirations. This includes nurturing and promoting the commercial interests of *Bumiputera* as outlined in the NEP. The GLCs Transformation Program (GLCT) explicitly mentioned about the board appointment policy;

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<sup>170</sup> Annual Report (2011, 2012).

<sup>171</sup> Annual Report (2011).

<sup>172</sup> Annual Report (2011).

<sup>173</sup> Annual Report (2012).

<sup>174</sup> During the privatisation process, the state sold 25 per cent of its equity to the public via a public listing exercise in 1990 (Lee, 2001; Naidu, 1995). In 2012, the state remains the majority shareholder and owns about 48% of TM's equity through various state agencies as follows; (1) Khazanah (28.73%); (2) EPF (14.26%); (3) KWAP (3.60%); (4) LTH (0.85%); and (5) PNB (0.82%) (Annual Report, 2012).

*“In expanding the pool of potential Directors, GLC Boards should look to those individuals who understand, and are sensitive to, the national development objectives of the GLCT Program, the National Mission and Vision 2020.”*

*(Green Book, 2006: 11)*

Given the political significance of TM, the appointment of board members and senior management could be made based on political reasons. As illustrated in Table 5.1, the boards are dominated by Malays and former government officers.<sup>175</sup> The rights carried by the *special share* are used not only to support the national development agenda but also as a means of monopoly regulation. Perhaps, this is because GLCs are expected not only to benefit from economies of scales but to increase in productivity performance and to fulfil social obligations towards the public at large.

Prior to the introduction of Bursa Malaysia CSR framework and Silver Book, it can be observed that CSR initiatives at TM mainly focused on education, community involvement / nation-building and sports development (see table 5.4, 5.7, 5.11 and 5.14). The group started to integrate Silver Book guidelines into corporate operations in 2007 and beginning 2008, the CSR reporting framework encompass four dimensions of Bursa Malaysia CSR framework: workplace, marketplace, community and the environment. TM produced its first sustainability report in 2008. TM's profound commitment towards CSR was expressed in the following report (Annual Report, 2011: 194);

*“[S]ocial responsibility is ingrained into the very fabric of TM. Corporate responsibility (CR) is a fundamental on which we base our business decisions... CR is accorded the same weight and priority as any other business operation within the Group. We strategise our CR programmes to have maximum impact on the communities targeted.”*

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<sup>175</sup> It is argued that this sort of arrangement was common for the state to reward its top civil servants and to ensure that TM gets easy with regulators (Malaysian Insider, 2009).

**Table 5.1: Composition of TM's Board Members**

Board Member	Position	Ethnicity	Personal Background
Datuk Dr Halim Shafie	NINED	Malay	Former Chairman of Malaysian Communications and Multimedia Commission (MCMC <sup>176</sup> ): 2006 – 2009.
Dato' Fauziah Yaacob	NINED	Malay	A representative of the MoF.
Tunku Dato' Mahmood Fawzy Tunku Muhiyiddin	NINED	Malay	Former Executive Director at Khazanah and a representative of Khazanah.
Dato' Sri Zamzamzairani Mohd Isa	NIED	Malay	Nominated by the MoF.
Datuk Bazlan Osman	NIED	Malay	Nominated by the MoF.
Dato' Danapalan T.P Vinggrasalam	NED	Indian	Former Chairman of MCMC (2004 – 2006).
Quah Poh Keat	INED	Chinese	-
Datuk Zalekha Hassan	INED	Malay	Former Deputy Secretary-General at MoF.
Dato' Ir Abdul Rahim Abu Bakar	INED	Malay	-
YB Datuk Nur Jazlan Tan Sri Mohamed	INED	Malay	A member of parliament. <sup>177</sup>
Ibrahim Marsidi	INED	Malay	-
David Benello	INED	Italian	-
Eshah Meor Suleiman	NINEAD	Malay	A representative of MoF.
Nik Rizal Kamil Tan Sri Nik Ibrahim Kamil	NINEAD	Malay	-
Total <i>Bumiputera</i> Composition in the Board			11/14 = 78%

Note: NINED – Non-Independent Non-Executive Director; NINEAD – Non-Independent Non-Executive Alternate Director; NIED – Non-Independent Executive Director; NED – Non-Executive Director; INED – Independent Non-Executive Director

Source: TM's Annual Report (2012)

However, a closer examination of TM's reports revealed that CSR initiatives are shaped by *Bumiputera* policy, which mostly aligned to support the state's aspirations and developmental agendas.<sup>178</sup> Part of this might be explained by the fact that most of the CSR initiatives are driven by the state through its agencies such as PCG and Bursa

<sup>176</sup> MCMC is responsible for the regulation of communications and multimedia industry based on powers provided by the Malaysian Communications and Multimedia Commission Act (1998) and the Communications and Multimedia Act (1998). The MCMC is responsible to implement and promote the national policy for the communications and multimedia sector.

<sup>177</sup> He is a politician and the Member of the Parliament of Malaysia for the Pulai constituency in the State of Johor. He is the Head of UMNO Pulai, Johor and the Chairman of Barisan Nasional for the division. He is also the chairman of the Public Accounts Committee (PAC).

<sup>178</sup> The CSR initiatives are discussed in Section 5.2.



Malaysia. Acknowledging their role in society, TM's report states (Annual Report, 2011: 9);

*“... As a former state-owned enterprise, we have a deep-rooted sense of duty to support the Government in its national development agenda...”*

Besides, critics argue that privatisation and market liberalisation of telecommunication sector favoured social elites who dominate the making of policy and are biased in favour of politically-linked individual and corporations (Lee, 2011; Nambiar, 2009; Singh, 2000).<sup>179</sup> This raises concerns about the state ability to play dual role as both the decision-maker and final arbitrator (see Mesher and Zajac, 1997). Hence, in a contemporary economic environment, the state is enmeshed with conflicts and contradictions in its efforts of managing competing pressures which in turn, would impede the development of CSR and public accountability.

### **5.1.2 IOI Corporation Berhad (IOI)<sup>180</sup>**

IOI was incorporated in October 1969, a home-grown business conglomerate with interests in palm oil plantation, property development and investment, and resource-based manufacturing. The group has a global presence in Europe, North America and Asia, with a market capitalisation of RM33.21 billion and employs more than 30,000 personnel across 15 countries and nationalities (Annual Report, 2012). The group is a major player in palm oil industry and operates about 150,000 hectares of palm oil plantations in Malaysia and 10,000 hectares in Indonesia. It has 12 palm oil mills with an annual milling capacity of approximately 4,000,000 tonnes of fresh fruit bunches, supplied mainly from its 82 estates in Malaysia (Annual Report, 2012). Plantations are the largest income contributor; representing about 60% of the conglomerate's profits (Annual Report, 2012).

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<sup>179</sup> As the political power is centralised, decisions tend to be taken behind closed doors and decisions were revealed publicly only after they have been made (Mesher and Zajac, 1997).

<sup>180</sup> Please refer to Appendix 2-B1 for the brief history of IOI.

Similar to other corporations, IOI is managed by its board of directors, responsible for the stewardship of the group and supervision of the business affairs of its subsidiaries. Table 5.2 shows that the board members of IOI appear to be dominated by family members who control about 44% of total shareholdings (Annual Report, 2012).<sup>181</sup> A closer look at the IOI's board members shows that *Bumiputera* representation is 11%, perhaps as a mere symbol of *Bumiputera* participation in the Chinese board.

**Table 5.2: Composition of IOI's Board Members**

Board Member	Position	Ethnicity	Personal Background
Tan Sri Dato' Lee Shin Cheng	Chairman and CEO	Chinese	<ul style="list-style-type: none"> <li>Appointed to the Board in 1981.</li> <li>Single largest shareholder.</li> </ul>
Dato' Lee Yeow Chor	ED	Chinese	<ul style="list-style-type: none"> <li>The eldest son of Tan Sri Dato' Lee Shin Cheng.</li> <li>Chairman of the Malaysian Palm Oil Council.</li> </ul>
Lee Cheng Leang	ED	Chinese	The brother of Tan Sri Dato' Lee Shin Cheng.
Lee Yeow Seng	ED	Chinese	The youngest son of Tan Sri Dato' Lee Shin Cheng.
Datuk Hj Mohd Khalil bin Dato' Hj Mohd Noor	INED	Malay	Former Auditor General Malaysia.
Datuk Karownikaran @ Karunakaran a/l Ramasamy	INED	Indian	Former Director-General of Malaysian Industrial Development Authority (MIDA).
Quah Poh Keat	INED	Chinese	A Member of the Federation of Malaysian Manufacturers Economic Policies Committee.
Cheah Tek Kuang	INED	Chinese	Former Group Managing Director of AMMB Holdings Berhad (Bank).
Lim Tuang Ooi	NINED	Chinese	A representative of EPF – substantial institutional shareholder.
Total <i>Bumiputera</i> Composition in the Board			1/9 =11%

Note: CEO – Chief Executive Officer; ED – Executive Director, INED – Independent Non-Executive Director; NINED – Non-Independent Non-Executive Director.

Source: IOI's Annual Report (2012)

<sup>181</sup> It seems that the power of voting rests with family members which could lead to a possible room for abuse of power. This, though not the case at the moment, could undermine accountability, transparency and good governance instilled in the organisation.

It can be observed that the IOI's approach to CSR is leaned on the philosophy of 'triple bottom-line', in which the group claimed to address the needs of people, planet and profit in order to achieve a sustainable balance.<sup>182</sup> The IOI's view seems to centre on the need to meet societal and environmental expectation and its responsibility to comply with social norms. Perhaps, such commitment is integrated into corporate policies and practices as shown in Figure 5.2.

**Figure 5.2: IOI's Corporate Responsibility**



Source: IOI's Corporate Website<sup>183</sup>

### 5.1.3 British American Tobacco Malaysia (BAT)

British American Tobacco Malaysia (BAT) is a subsidiary of global giant British American Tobacco Plc and started its operations in Malaysia since 1912. The BAT is the market leader in Malaysian cigarette industry, with a market capitalisation of RM17.7 billion, annual turnover of RM4.365 million and employed 1,032 people across the country (Annual Report, 2012). Similar to other MNCs, BAT is managed by the board of

<sup>182</sup> IOI's policy on CSR as disclosed in the corporate website.

<sup>183</sup> [http://www.ioigroup.com/corporateresponsibility/corporate\\_responsibility.cfm](http://www.ioigroup.com/corporateresponsibility/corporate_responsibility.cfm) (assessed on July, 2013).

directors, responsible for the stewardship of the corporation and supervision of its business affairs (see table 5.3).

**Table 5.3: Composition of BAT's Board Members**

Board Member	Position	Ethnicity	Personal Background
Datuk Mohamad Salim bin Fateh Din	INED	Malay	Commission member of the MCMC.
Datuk Oh Chong Peng	INED	Chinese	Member of the Labuan Financial Services Authority.
Dato' Ahmad Johari bin Tun Abdul Razak	INED	Malay	-
Datuk Zainun Aishah binti Ahmad	INED	Malay	Former Director General of Malaysian Industrial Development Authority (MIDA)
Datuk William Toh Ah Wah	NIED	Chinese	-
Andreas Michael Thompson	NIED	British	-
Christine Lee Oi Kuan	NIED	Chinese	-
Dato' Chan Choon Ngai	NINED	Chinese	-
James Richard Suttie	NINED	British	-
Total <i>Bumiputeras</i> Composition in the Board			3/9 = 33%

Note: INED – Independent Non-Executive Director; NIED – Non-Independent Executive Director; NINED – Non-Independent Non-Executive Director

Source: BAT's Annual Report (2012)

The composition of BAT board members, comprising both former government servants and a commission member of MCMC (regulator) provides means for the state intervention to promote and secure *Bumiputera* development agendas. For instance, the state established the National Tobacco Board to provide protection for the tobacco growers (who are mostly Malays), in terms of tariffs and a requirement that a proportion of locally grown tobacco to be included in all locally manufactured cigarettes (Barraclough and Morrow, 2008).<sup>184</sup> Besides, the board composition is presumably

<sup>184</sup> The National Tobacco Board responsible for fostering tobacco cultivation, while the Tobacco Act regulates the healthy aspects of the products.

symbolically representing the state's aspirations, through the representation of *Bumiputera* in the board.

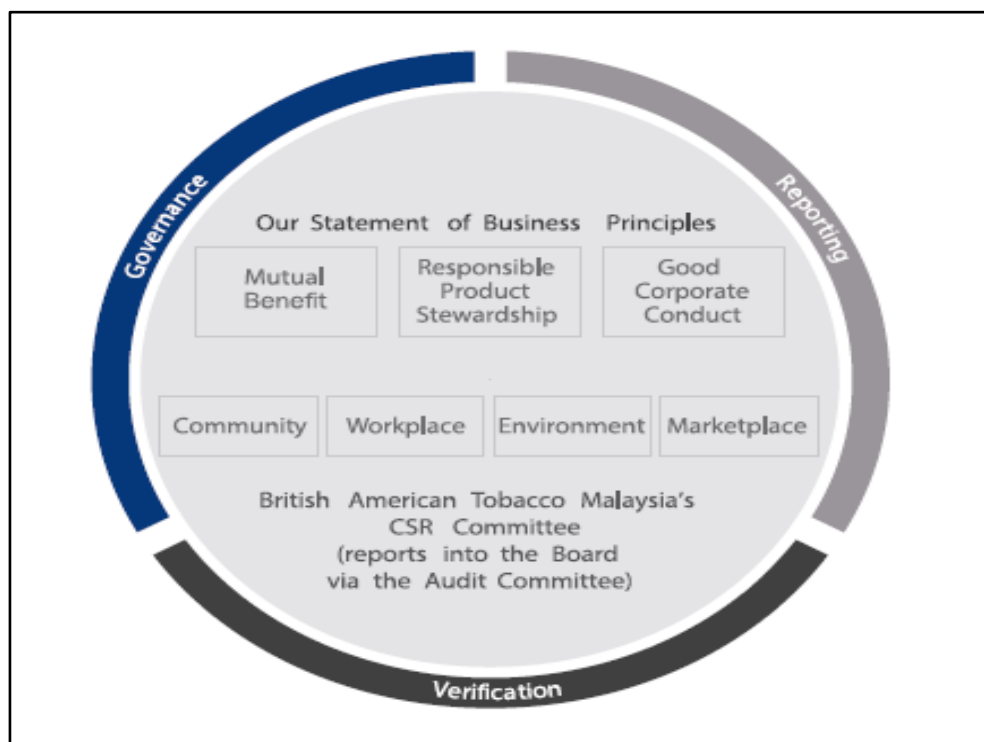
Nevertheless, while promoting tobacco growing and manufacturing for financial and political benefits, the state introduced tobacco control for the purpose of health protection (Barraclough and Morrow, 2008). Hence, the position of the state as decision-maker and final arbitrator, and in fact, the second largest shareholders<sup>185</sup> (through its various controlling agencies) raised concerns about the potential conflict of interest which may subsequently, undermine social responsibility and public accountability. In a contemporary economic environment, the state is embroiled in conflicts and contradictions over the economic rationality and citizens' welfare.

To show its commitment to operating responsibly, BAT established CSR Committee, comprising the top team which is chaired by the Managing Director. Prior to the introduction of Bursa Malaysia CSR framework, it can be observed that CSR initiatives at BAT comprised of social, economic and environmental dimension. BAT started to align its CSR policy to Bursa Malaysia CSR Framework in 2006 (see figure 5.3), which claims to focus on creating value for its shareholders and stakeholders in four key areas: community, workplace, environment and marketplace. In addition, BAT incorporated the Global Reporting Initiative (GRI) Indicators to report the economic, environmental, social and governance performance of its products and activities.

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<sup>185</sup> BAT's Annual Report (2012).

Figure 5.3: British American Tobacco Malaysia Sustainability Framework



Source: BAT's Annual Report (2012: 82).

#### 5.1.4 Discussion

The discussion shows how the institutionalisation of *Bumiputera* policy through predatory state power shapes governance mechanisms, particularly the appointment of board members and senior management in TM. While the state power acts as a construction of legitimacy in board political appointments, some cases which involve an abuse of corporate power, has eroded legitimacy of TM and the state. For instance, the examination of the mass media document uncovered a bribery scandal between TM and Alcatel-Lucent's (the French telecommunications giant) in 2011.<sup>186</sup> It is believed that irregularities were found relating to the contract and was raised during a meeting at TM, but it was allegedly brushed aside (Sidhu, 2010). Besides, it was reported that TM

<sup>186</sup> Alcatel had been awarded a telecommunications contract valued at approximately US\$85 million. It is alleged that Alcatel has bribed TM officials to obtain confidential information relating to a public tender that it won.

<http://www.themalaysianinsider.com/litee/malaysia/article/ex-alcatel-official-charged-in-telekom-bribery-scandal> (assessed on October, 2012).

director at that time quit as an audit committee chairman after the irregularities were found but was not investigated (The Star Online, 2010).<sup>187</sup> The occurrence of the incident may suggest poor governance on the part of TM and went against the principles and best practices set out in the *Malaysian Code on Corporate Governance* and the *Green Book: Enhancing Board Effectiveness* issued by the PCG. Actions taken in response to the incidents were omitted from the report.

Furthermore, despite professed claims of being accountable in its business conduct, TM has one subsidiary – TM International (Cayman) Ltd, incorporated in the British West Indies (Annual Report, 2012: 376). According to the World Atlas, the British West Indies consists of a diversified group of Caribbean islands, including Anguilla, British Virgin Islands, Cayman Islands, Monserrat and Turks and Caicos Island. Most of these states are commonly classified as tax haven jurisdictions (Ethical Consumer Tax Haven List 2012; PwC Tax Guide 2012: Tax Haven).<sup>188</sup> Even though the subsidiary is claimed to be dormant, it necessitates justification given loads of issues surrounding tax haven such as money laundering, fraud, transfer pricing and tax avoidance (see Bhat, 2009; Christensen, 2003; Tax Justice Network).

The examinations of corporate reports and documents also shed some lights on how the institutionalisation of *Bumiputera* influence social actors in non-*Bumiputera* corporations,

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<sup>187</sup> <http://biz.thestar.com.my/news/story.asp?file=/2010/12/30/business/7704123&sec=business>

(assessed on October, 2012).

<http://www.themalaysianinsider.com/litee/malaysia/article/ex-alcatel-official-charged-in-telekom-bribery-scandal> (assessed on October, 2012).

Nevertheless, in light of the incident, the group has signed a Memorandum of Understanding with the Malaysian Institute of Integrity which requires the group to plan, implement, execute, oversee and evaluate principles as contained in the National Integrity Plan. In 2012, TM launched the Integrity Pact that underline an agreement between TM and its vendors to abstain from bribery, collusion and any other corrupt practice. Under the Integrity Pact, bidders competing for the supply of goods and services provide a binding assurance that they have not paid any bribes in order to obtain contracts and an undertaking that they will not do so in future (Annual Report, 2012).

<sup>188</sup> <http://www.ethicalconsumer.org/ethicalcampaigns/taxjusticecampaign/taxhavenlist.aspx> (assessed on June, 2013).

<http://www.pwc.pt/en/quia-fiscal-2012/paraisos-fiscais.jhtml> (assessed on June, 2013).

which then shape governance mechanism in their organisations. The analysis shows that the appointment of Malay directors in non-*Bumiputera* corporations is aligned with the state's aspiration. However, critics argue that the appointment is merely for legitimacy reasons – to symbolically represent the *Bumiputera* (Lim, 1981). This could partly explain by the Code of Corporate Governance requirement which necessitate the corporations to have independent directors. Such requirement gives the convenience for corporations to make symbolic appointments, since independent directors (IDs) and non-executive directors (NEDs) are not involved in the day-to-day running of the business.

As illustrated in the IOI's board, having Malay directors (1/9) on Chinese boards as the NEDs does not affect the power of Chinese executives but giving the impression of supporting the state policy. Similar situation can be observed in the BAT's board but such composition probably acts as mechanisms for the state intervention to promote and secure *Bumiputera* development agendas. Critics argue that the services of these IDs and NEDs are sought after because their presence was politically significant to secure contracts, tenders, licences or concessions from the state (Lim, 1981). Thus, because they perform extra-economic functions for the corporations, it is normal to observe that these IDs and NEDs are mostly politicians or former civil servants. It can be inferred that while trying to observe rules and guidelines, non-*Bumiputera* corporations respond to their environment by making decisions which they see as necessary in order to continue pursuing their economic interest, maintaining the state's aspiration and securing legitimacy for their organisations.

The analysis also shed some lights on the influence of shareholding structures on the behaviour of CSR actors, which in turn, shape corporations understanding and production of CSR in Malaysia. Although adopting different CSR framework, each corporation found a way to either directly or indirectly acknowledge their social role to the public at large. Drawing from corporate reports, approaches to CSR reporting ranging



from the topical to the more deeply embedded, exemplifying that reporting is voluntary and there are lots of benchmarking strategies that have been developed by corporations. Perhaps, this suggests that meanings of CSR is continuously produce and re-produced as corporations constantly strive to make sense of dynamic societal and institutional expectations, constructing meanings and reflecting this construction in their public communications. For the purpose of this study, corporate reports and documents are viewed as partially constitutive of meanings. Hence, the following section examines how meaning might be socially constructed in relation to four perspectives of CSR: (1) environmental responsibility; (2) employee welfare and management; (3) community involvement and development; and (4) responsibilities to the state. These four perspectives are used as sensitizing lenses to understand corporate 'talk' about CSR, what kind of activities is described as CSR and how corporations report on conducted activities. For every CSR related initiatives, the level of corporate involvement was rated based on the description of CSR activities and contribution made for those activities. There were three rating levels used; ✓ for full disclosure – description of CSR initiatives and contribution made were available; □ for partial disclosure – either description of CSR initiatives or contribution made are given in the report; ∅ for no disclosure – either CSR activities were not initiated yet or the corporations do not include the themes as prescribed by this study.

## **5.2 Environmental Responsibility**

Malaysia experiences environmental problems as a result of rapid industrialisation over the past years. These include deforestation due to illegal logging resulting in the loss of wildlife habitats, soil erosion and the displacement of indigenous communities, air and water pollution especially in the main centres of economic activity and the dumping of hazardous waste. It was claimed that a total of 6,078 compounds were issued in 2011 against premises and companies for various offences under the Environmental Quality

Act (EQA) 1974.<sup>189</sup> Besides, a total of 811 offences were prosecuted under EQA 1974 with total fines collected amounting to RM4,093,700 in 2011. Amongst offences noted were air pollution from motor vehicular emissions, violation of license conditions and effluent discharges exceeding standards.

Industrialisation has changed the country's economic progress but yet to be translated into improved environmental conditions. With the growing environmental consciousness as a result of increased media attention, heightened scrutiny from the international NGOs and green consumerism, it is crucial to understand on how corporations integrate environmental concerns into their operations and what environmental activities they make to minimise an adverse impact on the environment.

### 5.2.1 Telekom Malaysia Berhad

To indicate TM's commitment in the environmental protection and management, the group senior manager (GSM) interviewed stressed that;

*"We undertook environmental initiatives in 2008 but since then, we put concerted efforts to lessen our carbon footprint... As an effort to reduce carbon emissions, we launched Environmental Management Plan in 2011 and carried out a group-wide audit of carbon emissions. Being responsible towards environment means safeguarding the natural resources that we have today for future generations."*

This partly explained on the increased number of pages devoted for environment over the years; increased from just 1 page in 2003, 8 pages in 2008 and 12 pages in 2012. It can be observed that TM started to proclaim its environmental policies in 2007 and such commitment was evident when the group was environmentally certified with ISO 14001 in 2008. From this year onwards, it can be observed that TM's environmental-related initiatives have expanded and this include information about environmental policy and management, commitment to the green infrastructures, climate change, initiatives to

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<sup>189</sup> Keynote Address by Halimah Hassan, Director General of Environment in ENSEARCH's Environmental Legislation Seminar, 2013.

monitor environmental impact, the establishment of the environmental awareness programme and conservation of biodiversity (see table 5.4). To underline its commitment to environment, the group claimed that;

*“TM believes it is the duty of every responsible corporate organisation to contribute towards global efforts to manage climate change. While we have always been guided in our operations by environmental laws, we have in recent years gone above legal requirements to promote a greener and more sustainable environment for all.”*

*Annual Report (2011: 201)*

However, environmental-related information was not systematically provided and most of the disclosures being stated in a narrative form, with some few monetary measures, graphs and photographs. Notwithstanding to increase environmental disclosures over the years, little information was provided on environmental consequences as a result of network facilities installation or base station construction. The installation of network or construction of base station requires land and vegetation clearing and may damage the environment's natural habitat.<sup>190</sup> The disclosure in this area is needed as the group had undertaken a massive High-Speed Broadband (HSBB) project which involved the installation of physical infrastructure for HSBB network and services.

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<sup>190</sup> Communications and Multimedia Act (1998) – the network facilities provider is required to take reasonable steps to ensure minimal damage to the environment and the location should be restored back to its similar condition after the installation of network facilities are done.

Table 5.4: TM's Environmental Responsibility

Initiatives	Sustainability Report	Disclosures									
		2012 12 pages	2011 12 pages	2010 7 pages	2009 6 pages	2008 8 pages	2007 <1 page	2006 2 pages	2005 < 1page	2004 < 1page	2003 < 1page
Environment	<ul style="list-style-type: none"> <li>Policy Statement</li> <li>Environmental Management System (ISO 14001)</li> </ul>	□	□	□	□	□ Invest RM100,000 for the system	□	∩	∩	∩	∩
Green infrastructures – claimed to contribute to the reduction of CO2 emissions.	Planned to replace 'Public Switched Telephone Network' (PSTN) switches to 'Next-Generation Network' (NGN)	□	∩	∩	∩	∩	∩	∩	∩	∩	
Climate change	Carbon management plan	□	□	□	□	□	∩	∩	∩	∩	
Monitoring environmental impact	Energy saving and conservation	□	□	□	□	□	∩	∩	∩	∩	
	Waste management	□	□	□	□	□	∩	∩	∩	∩	
	Greenhouse gas (GHG) emissions	□	□	□	□	∩	∩	∩	∩	∩	
	Water management	□	□	□	□	∩	∩	∩	∩	∩	
	Noise monitoring (headquarters)	□	□	∩	∩	∩	∩	∩	∩	∩	
	Dust monitoring (generator)	□	□	∩	∩	∩	∩	∩	∩	∩	
Environmental awareness programme	<i>Bumiku</i> (MyEarth) – employee awareness programme.	□	□	□	□	∩	∩	∩	∩	∩	
	Program with community	∩	∩	∩	∩	∩	∩	∩	∩	∩	
	TM Earth Camp – collaborated with Malaysian Nature Society	□	□	□	∩	∩	∩	∩	∩	∩	
Conservation of biodiversity	Adopted two tapir at the National Zoo	√ RM32,000	∩	∩	∩	∩	∩	∩	∩	∩	
	The impact of business operation on biodiversity	∩	∩	∩	□	□	∩	∩	√ RM430,000	∩	

Source: TM's Annual Reports and Sustainability Reports, TM's Website and Interview Data

√ - full disclosure

□ - partial disclosure

∩ - no disclosure

Besides, TM's environmental programme and management claimed to comprise plans and actions, but information such as percentage of materials used that are recycled, total weight of waste by type and disposal method of waste deemed hazardous and waste shipped internationally were left out. Furthermore, initiatives undertaken to mitigate environmental impacts of TM's infrastructures (such as radiation exposure from base station) were absent.

### **5.2.2 IOI Corporation Berhad**

The palm oil industry faces constant pressure from NGOs concerning the production of sustainable palm oil. The industry has been alleged for illegal logging, clearing land for palm oil plantation, peat land destruction which leads to carbon dioxide emissions, natives deprived of land and livelihood, disappearance of bio-diverse wetlands, increase in food prices and extinction of *Orang Utan*. The extension of palm oil plantation has been considered dangerous for the survival of the planet by the environmentalist. Besides, the environmental NGOs have increasingly exposed a gap between corporate 'talk' and actions.

This study argues that allegations against the palm oil plantation corporations provide an opportunity to explore the nature and extent of environmental practices through the lens of corporate disclosure in the annual reports. IOI has been alleged for irresponsible conduct in the Malaysian state of Sarawak and the Indonesian province of West Kalimantan, which was found to be inconsistent with the group's claims of CSR. For instance, the IOI Pelita Plantations, a subsidiary in Sarawak, had been alleged of irresponsible water resource management, haphazard agrochemical handling and unsanitary solid waste disposal. In addition, the Friends of the Earth (2010) documented that the group's subsidiary in Ketapang, Indonesia failed to hold CSR policies despite the promise of sustainable palm oil production. It was claimed that the subsidiary had

violated the RSPO requirements and Indonesian legislation, for instance developing plantations without approval and Environmental Impact Assessments (EIAs), deforestation and zero-burning policy (Friends of the Earth, 2010) (see Appendix 2-B3).

In response, it can be observed that IOI provides massive disclosures in that year (about 8.5 pages devoted to environment in 2010), focusing on 'environmental sustainability practices'. However, this information was mostly structured in a narrative form, with some few photographs of beautiful scenery at the palm oil plantation. As a major player in palm oil industry and a founding member of the Roundtable for Sustainable Palm Oil (RSPO)<sup>191</sup>, the group advocates sustainable agricultural practices in its estates. The group claimed that (Annual Report, 2010: 53);

*“Certification and use of sustainable palm oil not only benefits IOI Group, but also contributes to the greater good of all who care about environmental and social respect.”*

The review of IOI's environmental responsibility revealed that CSR-related initiatives have expanded across the period (2003 – 2012) and this include information about environmental and zero burning policy, conservation and rehabilitation of bio-diversity and ecology, renewable energy to produce the steam needed to extract the palm oil from fruit, environmental impact and wildlife conservation (see table 5.5).

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<sup>191</sup> The RSPO is a non-profit organisation, formed in 2004. Its members include representation from oil palm growers, palm oil processors and traders, consumer goods manufacturers, environmental NGOs, social NGOs, banks, investors and retailers which aim to address social and environmental issues related to production of palm oil. The RSPO established Principles and Criteria for Certified Sustainable Palm Oil in 2007, which outlines a set of criteria and indicators that must be met by palm oil mills and plantations. These include transparency, compliance with laws and regulations, use of best practices in agriculture, environmental responsibility and conservation and responsible consideration of employees and communities. However, critics argue that the appointment of Lee Yeow Chor (IOI's Executive Director) as the chairman of the Malaysian Palm Oil Council (MPOC) is to increase the credibility of the private sector-government palm oil lobby group (Friends of the Earth, 2010). Besides, critics argue that despite large investments being made in CSR by palm oil corporations and the state's support for the RSPO certification process, the tangible advantages or improvements in the CSR-related area are yet to be clearly quantified (UNICEF Malaysia, 2009).

Table 5.5: IOI's Environmental Protection and Management

Initiatives	Practices Annual Report	Disclosures									
		2012 3 pages	2011 1.5 pages	2010 8.5 pages	2009 3.5 pages	2008 3 pages	2007 3 pages	2006 4 pages	2005 2 pages	2004 2 pages	2003 pages
Environmental policy	-	□	□	□	□	□	□	□	□	□	□
Zero burning technique <sup>192</sup>	Old palm stands are felled, chipped and left to decompose at the site.	□	∩	∩	□	□	∩	∩	∩	∩	∩
Conserve and rehabilitate bio-diversity and ecology	Integrated pest management practices <sup>193</sup>	□	□	∩	□	∩	∩	□	□	∩	∩
	Growing leguminous species as a cover crop to prevent soil erosion enhance the soil nutrient status and improve soil water retention.	□	∩	∩	∩	∩	∩	∩	□	∩	∩
	Conserving natural trees, flora and fauna species in buffer zones and steep areas.	□	∩	∩	∩	∩	∩	∩	∩	∩	∩
	Phase out the use of paraquat.	□	□	∩	∩	∩	∩	∩	∩	∩	∩
Renewable energy	Reuse the waste of biomass by-products	□	□	∩	□	∩	∩	□	∩	∩	∩
Environmental impact	CO2 emissions	□	□	∩	□	□	∩	∩	∩	∩	∩
	Water consumption	□	□	∩	□	□	□	∩	∩	∩	∩
	Electricity consumption	□	□	∩	□	□	∩	∩	∩	∩	∩
	Greenhouse gas emission	□	□	∩	□	∩	∩	∩	∩	∩	∩
Roundtable on Sustainable Palm Oil	Promote sustainable practices	□	□	□	□	□	□	□	□	□	□
Wildlife conservation	<i>Orang Utan</i> Foundation and Malaysian Palm Oil Wildlife Conservation Fund.	∩	□	∩	∩	∩	∩	∩	∩	∩	∩

Source: IOI's Annual Reports and Corporate Website

√ - full disclosure

□ - partial disclosure

∩ - no disclosure

<sup>192</sup> This practise is regulated under the Environmental Quality (Clean Air) Regulations 1978, established to overcome smoke pollution commonly associated with land clearing via slash and- burn and to return all organic matter to the soil

<sup>193</sup> Integrated pest management practices – introducing bird species such as barn owl as rat control; planting beneficial plants such as *Cassia cobanensis* and *Euphorbia heterophylla* as sources of nectar for parasitoids to keep populations of oil palm insect pests in balance with nature

The use of renewable resources as the main fuel consumption for steam generation claimed to reduce the group dependency on fossil fuel. The group also claimed that it managed to reduce the amount of undesirable emissions, greenhouse gases and pollution that are produced from its daily operations (Annual Report, 2012).

To show its commitment to sustainable production, IOI claimed that all of its mills and estates in Peninsular Malaysia had attained RSPO Certification whilst in the East Malaysia, four mills and their supply bases have also been certified. The group also claimed that seven of the group's palm oil mills and their supply estates had been certified by the International Standard for Carbon Certification in Germany (Annual Report, 2012). To underline its commitment to the production of sustainable palm oil which adhered to environmental, social and economic standards, the group emphasized (Annual Report, 2012: 48);

*“The Group holds firmly to operating its businesses in ways that meet regulatory requirements on environmental impact in countries or markets where it operates. It strives to achieve a sustainable long-term balance between meeting its business goals and preserving the environment. Specifically, the Group adopts a group-wide policy of greening the environment which also extends to insisting on its suppliers and business partners to practise the same standards of environmental care.”*

Nevertheless, the examination of corporate reports for ten years found conflicting evidences as the group's subsidiaries have been fined for violating several standards of the Environmental Quality Act 1974. This include failure to operate control equipment in the proper manner,<sup>194</sup> effluent overflow and exceeding limit,<sup>195</sup> sludge was found in the pond<sup>196</sup> and failed to properly store the scheduled waste.<sup>197</sup> However, the examination of corporate reports in 2010 – 2012 found no penalties imposed and thus, it is assumed that the group has implemented necessary measures as promised.

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<sup>194</sup> Annual Report 2005 and 2006.

<sup>195</sup> Annual Report 2005 – 2009.

<sup>196</sup> Annual Report 2006.

<sup>197</sup> Annual Report 2006 and 2007.



Despite some narrative disclosures on environmental impact such as CO<sub>2</sub> emission and water and electricity consumption, no information was provided in the report about possible environmental risks and hazards from effluent and pollutant output and management of waste. As the impact of palm oil industry on the environmental wellbeing has been an increasing concern of international NGOs, the media and the public, detail information about the targets and measures taken to minimise environmental impact associated with palm oil production would be of interest to many stakeholders in Malaysia.

### **5.2.3 British American Tobacco Malaysia (BAT)**

To underline its commitment to environmental responsibility, BAT's CSR Policy on Environment stated (Annual Report, 2012: 89);

*“British American Tobacco Malaysia’s commitment to embed environmental responsibility throughout our business operations is aligned to the principles outlined in our Global Environment, Health and Safety policy and Integrated Management System (IMS).”*

Table 5.6 shows BAT's environmental-related activities and this include information about environmental management system, carbon footprint, initiatives to manage environmental impact, environmental practices and environmental expenditures and investments. Although most of the disclosures were in a narrative form, there were also graphs, monetary and non-monetary information in the reports. For instance, quantitative measures of the environmental impact assessment and disposal of waste were provided in the reports.

Table 5.6: BAT's Environmental Protection and Management

Initiatives	Practices Annual Report and Social Reporting	Disclosures									
		2012 6 pages	2011 7 pages	2010 6 pages	2009 7 pages	2008 2 pages	2007 13 pages	2006 10 pages	2005 7 pages	2004 7 pages	2003 7 pages
Environment Management System	ISO 14001 : 2004	□	□	□	□	□	∩	∩	∩	∩	∩
	Best practices	□	□	□	□	□	□	□	□	□	□
Carbon Footprint	Afforestation programme – planted trees	□	□	□	□	□	□	□	□	□	□
Managing environmental impact	Energy efficient	√	√	√	√	∩	√	√	∩	∩	∩
	Energy consumption	√	√	√	√	∩	√	√	√	√	√
	Waste production and management	√	√	√	√	√	√	√	∩	∩	∩
	Material consumptions and management	√	√	√	√	∩	√	√	√	√	√
	Water consumption	√	√	√	√	√	√	√	√	√	√
	Air, atmosphere and noise pollution	∩	□	∩	∩	∩	∩	∩	∩	∩	∩
Environmental practices	Emissions, effluents and waste (e.g. CO <sub>2</sub> , greenhouse)	□	□	□	□	□	□	□	□	□	□
	Disposal of waste	√	√	√	√	√	√	√	∩	∩	∩
Environmental expenditures and investments	Breakdown of expenditures	√ RM2.55 million	√ RM2.091 million	√ RM191,000	√ RM996,435	∩	√ ≈RM2,151 million	√ RM891,445	√ RM4.18 million	√ RM3.42 million	√ RM2.87 million

Source: BAT's Annual Reports, Social Reporting and Corporate Website

√ - full disclosure

□ - partial disclosure

∩ - no disclosure

BAT established an afforestation programme in Sabah in 2002 as part of its long-term commitment to reduce its carbon footprint. Through the afforestation programme, BAT claimed to remain carbon positive until 2024 based on the present business operations.<sup>198</sup> However, information on environmental assessments in terms of CO<sub>2</sub> emissions computation and production methods which is connected to the reduction of CO<sub>2</sub> emissions was not provided in the report. The practise of carbon offset through the afforestation programme in the East Malaysia (Sabah) sparks a concern about the social and environmental issues of the communities living nearby the tobacco estates and factories since most of the BAT operations are located in the West Malaysia.

A further examination of BAT's annual and social reporting revealed that BAT incurred fines for non-compliances of the Environmental Quality (Industrial Effluent) Regulation 2009 (Annual Report, 2012: 99). The report indicated that BAT failed to notify the Department of Environment about the malfunction of the industrial effluent treatment system which claimed to be under maintenance. The factory effluent treatment plant was found to be non-compliant with the Act caused by the unforeseen breakdown in the air blower motor in 2004.

#### **5.2.4 Discussion on Environmental Responsibility**

The analysis of corporate reports and documents revealed that the term 'environment', 'green' and 'sustainable' are often loosely used on a broad range of environmental practices and management. The analysis of environmental disclosures uncovers a 'gap' between corporate proclamations of safeguarding the environmental wellbeing and actual implementation. This is consistent with Guthrie and Parker (1990) who claimed

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<sup>198</sup> The programme claimed to sequester more than 230,000 tonnes of CO<sub>2</sub> per annum whilst BAT total CO<sub>2</sub> emissions were 38,549 tonnes in 2012 (Annual Report, 2012: 90).

that environmental disclosures are used as a mechanism to portray a green image, to accommodate environmental pressures and to respond to the state pressure.

Little information was provided on the environmental consequences as a result of corporate activities to the public at large and environmental wellbeing. Rather, environmental initiatives were generally focused on: (1) providing financial support or use of corporate resources (including employee) to develop educational programs for environmental protection and sustainable development for the school kid and community; (2); creating internal programmes to create environmental awareness amongst employees; (3) developing and preserving wildlife habitats through contribution made to NGOs; (4) reducing waste materials, recycling or reuse materials; and (5) developing and certifying environmental management systems.

Although the sample cases comprise corporations who are environmentally certified with ISO 14001 or RSPO, details on concrete activities undertaken to conserve the environment were absent from the corporate reports and documents. According to Thevaraj (2002), the ISO 14001 certifications were obtained merely to fulfil the requirements by foreign MNCs that mandated their suppliers to be ISO 14001 certified. Perhaps, this could partly explain the lack of environmental disclosure by Malaysian corporations (see Bakhtiar *et al.*, 2009; Jaffar *et al.*, 2002; Yusoff and Lehman 2009). Thus, whilst corporations made substantial commitments to address environmental issues, detailed information about the targets and measures taken to minimise environmental impact associated with business operation would be particular interests to the public at large.

### **5.3 Employee Welfare and Management**

The process of economic globalisation removes the physical barriers of geography and distance and this is evidenced by the movement of people, goods and services as well as capital across countries. This social phenomenon may inevitably challenge labour and employment issues and subsequently impinge the country's development agenda. Issues such as decent wages, compensation, treatment of foreign workers, terms of employment and occupational safety and health have accelerated interest in the responsibility and accountability that corporations owe to its employees across the world.

Malaysia has been alleged to practice child and forced labour in the palm oil, electronics and garments industries by the US Department of Labour (US DOL). The annual publication entitled "*List of Goods Produced by Child Labor or Forced Labor*" has listed the country for 6 consecutive reports, from 2009 to 2014. This sparked concern about the responsibility and accountability of Malaysia corporations owe to its employees. Therefore, this section shed some lights on how corporations describe, explain or account for employee welfare and management.

#### **5.3.1 Telekom Malaysia Berhad**

TM's disclosures on employee welfare and management were massive, covering issues such as human development (including health and safety, employee engagement, training and professional development), human right policy, diversity and equal opportunity, remunerations and benefits, and freedom of association and collective bargaining (see table 5.7). Although it can be observed that information about employee welfare and management has been expanded across the period (from 5 pages in 2003 to 15 pages in 2012), most of these disclosures were in a narrative form, with some pictures, graphs and monetary information.

Table 5.7: TM's Employee Welfare and Management

Programme	Initiatives Sustainability Report	Disclosures									
		2012 15 pages	2011 14 pages	2010 12 pages	2009 11 pages	2008 11 pages	2007 12 pages	2006 4 pages	2005 2 pages	2004 1 page	2003 5 pages
Health and safety – create a safe environment at TM work-sites	<ul style="list-style-type: none"> <li>• OSHE Policy and Compliance</li> <li>• Workplace safety and training</li> <li>• Contractor management</li> <li>• Promotion and recognition</li> </ul>	□	□	□	□	□	□	□	□	□	□
Human right	Policy Statement	□	∩	□	□	□	∩	∩	∩	∩	∩
Employee diversity and equal opportunity	<ul style="list-style-type: none"> <li>• Offering same career opportunities and salaries</li> <li>• Salary scheme is tailored against performance not gender/race</li> </ul>	√	□	√	√	□	∩	∩	∩	∩	∩
Benefits for full-time employees	Medical coverage, dental treatment, leave (maternity, paternity, study, compassionate, pilgrimage and examination), allowances, free fixed line rental and loan facilities.	□	□	□	□	□	□	∩	∩	∩	∩
Extra benefits provided for women	Flexi-hours (flexi working schedule) and 'teleworking' (working from home)	□	∩	□	□	∩	∩	∩	∩	∩	∩
	Childcare facilities and medical (gynaecology services).	□	∩	∩	∩	∩	□	∩	∩	∩	□
Employees' retirement	Contribute an additional 4.5-7.0% of employees' salaries to EPF, depending on employee's years of service.	□	□	∩	∩	∩	∩	∩	∩	∩	∩
Employee' engagement	Established platforms that aim to create an open channel of communication between management and employees at all levels.	√	√	□	□	□	∩	∩	∩	∩	∩
Work-life balance	Provision of social and recreational facilities	□	□	∩	□	□	□	∩	∩	∩	□
	Employee Assistance Program – to assist employees to manage, overcome and avoid family problems that can impede their performance and productivity.	□	□	□	□	□	□	∩	∩	∩	∩
Learning and development	<ul style="list-style-type: none"> <li>• Designed to equip employees with knowledge and skills required to perform optimally and acquire positions of greater responsibility.</li> <li>• Scholarship</li> </ul>	□ 46 hours	□ 40 hours	□	□	□	□	□ 40 hours □RM5.26 million	∩	∩	□ 40 hours RM11.14 million □RM2.23 million

Donation to less fortunate employee	TM Welfare Fund	□	∅	∅	□ RM108,583	∅	∅	√ RM100,000	∅	∅	∅
Opportunity for Disabled	Policy and initiative	□	∅	□	∅	∅	∅	∅	∅	∅	∅
Freedom of Association and Collective Bargaining	Trade union	□	□	□	∅	□	□	∅	∅	∅	∅

Source: TM's Annual Reports and Sustainability Reports, TM's Website and Interview Data

√ - full disclosure

□ - partial disclosure

∅ - no disclosure

In light of an allegation about the use of child and forced labour in Malaysian industry, TM endorsed its commitment that conformed to Malaysian labour law;

*“Our operations in Malaysia are structured by the Malaysian Employment Act 1955, which prohibits exploitative labour practices; the Children and Young Persons (Employment) Act of Malaysia, which prohibits the employment of children under the age of 14; and other applicable international agreements against child labour. We also cooperate fully with our labour unions, while complying with national labour laws on freedom of association and collective bargaining. There was no reported incident of infringement of any of the above regulations. TM also has no record of any violations against the rights of indigenous people at any time in the Company’s history.”*

To show its commitment to ensure a safe workplace for its employees, the group stressed that;

*“TM is committed to keeping our workplaces free from hazards and all employees are required to comply with the provisions of our Occupational Safety and Health Manual. We ensure all personnel have appropriate training and competency in Occupational Safety, Health and Environment matters.”*

*Annual Report (2011: 190 - 196);*

To maintain a safety and health working environment, GSM stated;

*“Our policies and practices are in compliance with OSHE and international rules and regulations. We have our own OSHE department that deals with these issues and ensure that we are complying with the regulated health and safety standards. We are also adhering to the ten declarations of UN Global Compact and ILO.”*

According to GSM interviewed, various initiatives have been put in place to address safety and health issues. For instance, employees working at height are equipped with ladders that have additional safety features such as V-bucket, lanyard and step extender. She further claimed that due to TM continuous efforts to provide safety and health working environment, the group has achieved Zero Fatal Accident in 2010 and 2011.

To ascertain this proclamation, data about work-related accidents and injuries were seek from the corporate reports and information were found as follows: 2012 – the number of accidents increased by 38.1% (98 accidents) and four fatal accidents involving contractors’ personnel was recorded; 2011 – 36 accidents were recorded, in which



68.4% of these accidents were due to personnel falling from high places; and the number of accidents recorded for other period were 28 (2010); 53 (2009); 27 (2008); 52 (2007); 52 (2006); and 25 (2005). No information provided for 2003 and 2004. Falls from height were the most common cause of accidents as a result of field work which involves climbing ladders, poles or roofs.

Expressing concerns about work-related accidents and injuries, manager at the state-operational level (SOM2) claimed that the major challenge faced by him is to instil a culture of safety and health not only among their employees but also the contractors' personnel;

*“OSHE is a new set of standards. Previously we only have general guidelines on health and safety issues. We do face some resistance from employees and contractor who are sometimes reluctant to follow certain procedures like wearing a proper suit for those working with cable and at high places.”*

Besides, the group also states its commitment to sustain professional relationships with the Unions through regular collective agreements and open dialogues.<sup>199</sup> GSM stated;

*“TM nurtures a healthy relationship with unions by maintaining regular and open dialogue... to update the unions of major changes to the business and to resolve matters pertaining to collective agreements or operational issues.”*

However, examinations of corporate reports revealed that the percentage of employees who joined the Union decreased from 67% in 2011 to 36% in 2012, but the cause of such dropout was absent from the report. The percentage of employees who joined the Union for 2010 was 41%; and 2009 was 46%.<sup>200</sup> No information was provided from the period 2003 – 2008. Despite increased disclosures on employee welfare and management over the years, no disclosures were made regarding the amount spent for initiatives taken on employee welfare and management, except information on donation to the employees.

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<sup>199</sup> Sustainability Report 2012, 2011, 2010 and 2009.

<sup>200</sup> Sustainability Report (2012).

### 5.3.2 IOI Corporation

Table 5.8 provides several IOI's initiatives on employee welfare and management. Disclosures on employee welfare were in a narrative form and appeared to be limited in scope. The group CSR Policy on Employees emphasised (IOI's website);<sup>201</sup>

*"IOI is committed to providing rewarding careers for our people on the basis of their aptitude, performance, and qualification - irrespective of race, gender, or nationality. Other key commitments to our employees include providing safe and healthy working conditions, devoid of force or child labour; preservation of dignity and freedom of association; and maintaining open channels of communication.*

Notwithstanding information disclosed on the corporate website regarding employee welfare and management, disclosures were absent from the annual report. Given the legitimacy crisis faced by palm oil industry, particularly allegation about the use of child and forced labour by US DOL, little information was given on issues such as basic amenities to estate workers, salary and wages, employees' welfare management and engagement, and policies on trade union. In addition, no disclosures were made relating to investment of the 'world class' occupational safety and health management systems. This is contrary to the expectations of legitimacy theory, in which corporations constantly maintain and conform to the expectations and values of the society within which they operate (Dowling and Pfeffer, 1975; Gray et al., 1995; Guthrie and Parker, 1989; Shocker and Sethi state (1973); van Staden and Hooks (2007).

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<sup>201</sup> [http://www.ioigroup.com/Corporateresponsibility/cr\\_policystatement.cfm](http://www.ioigroup.com/Corporateresponsibility/cr_policystatement.cfm) (assessed in July, 2013).

**Table 5.8: IOI's Employee Welfare and Management**

Programme	Initiatives Annual Report	Disclosures									
		2012 ◁1 page	2011 ◁1 page	2010 ◁1 page	2009 ◁1 page	2008 0 page	2007 ◁1 page	2006 2 pages	2005 ◁1 page	2004 0 page	2003 0 page
Basic amenities for estate workers		∩	□	∩	□	∩	□	∩	□	∩	∩
Health and safety	Medical facility: clinic and ambulance	□	∩	∩	∩	∩	∩	∩	∩	∩	∩
	Medical check-up: Pap smear, breast cancer and other healthcare issues	∩	∩	∩	∩	∩	∩	∩	∩	∩	∩
Occupation safety and health management systems <sup>202</sup>	Accreditation levels – OHSAS 18001 standards	∩	□	∩	∩	∩	∩	∩	∩	∩	∩
Education	Awards for employees' children	□	□ RM50,560	∩	∩	∩	∩	∩	∩	∩	∩

Source: IOI's Annual Reports and Corporate Website

√ - full disclosure

□ - partial disclosure

∩ - no disclosure

<sup>202</sup> [http://www.ioigroup.com/Corporateresponsibility/cr\\_policystatement.cfm](http://www.ioigroup.com/Corporateresponsibility/cr_policystatement.cfm) (assessed in July, 2013).

Besides, Grassroots Report (2010) exposed corporate ‘hypocrisy’ of IOI subsidiary’s practice in Sarawak (see Appendix 2-B2). The report documented a less habitable housing area with no signs of proper sanitation and sewage and disregard for foreign workers’ welfare. It was alleged that each worker earned RM28/tonne of fresh fruit bunch collected. The act, in fact, violated the standards of the RSPO under Criterion 6 and other general laws on employment:

- a. Principle 6: Responsible consideration of employees and of individuals and communities by growers and millers:

Criterion 6.5: It is compulsory for growers and millers to provide adequate housing, water supplies, medical, educational and welfare amenities to national standard or above, where no such public facilities are available or accessible.

- b. As stipulated under the Worker’s Minimum Standard of Housing and Amenities Act 1990 (Act 446), mills must meet the minimum standards for housing.<sup>203</sup>

Despite the professed claim to uphold CSR Policy on Employees, problems remain on the ‘sincerity’ of corporate commitments to CSR. Thus, it seems that business continues as usual without significant threat to its organisational legitimacy.

### 5.3.3 British American Tobacco Malaysia

The BAT’s CSR Policy on Employees emphasised (Annual Report, 2010: 70);

*“British American Tobacco Malaysia believes that the key to a high performing and engaged workforce is in constantly implementing innovative and effective ways to create a working experience that ignites passion and excitement in every employee. This value-adding working experience is cultivated through enhancing work facilities, providing attractive propositions and placing top priority on employee safety and wellbeing.”*

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<sup>203</sup> However, the Act does not actually require plantations to meet the standard and this criterion does not apply to smallholders and requires minor compliance.

The review of BAT's employee welfare and management revealed that CSR-related initiatives have expanded across the period and this include employee welfare and wellbeing, remuneration and retirement benefits, employee engagement, occupational health and safety management, training and education and freedom of association and collective agreement (see table 5.9). Disclosures on employee welfare and management were mostly structured in a narrative form, with some few monetary measures.

However, the occurrences of several industrial and road accidents raised a concern on health and safety issues of the employees, not only at the workplace but also on the road (see table 5.10). Despite initiatives taken by BAT to report occupational accidents, the corporation failed to mention the necessary measures taken to address the health and safety aspects of employees at the workplace and on the road.

**Table 5.9: BAT's Employee Welfare and Management**

Initiatives	Practices Annual Report and Social Reporting	Disclosures									
		2012 10 pages	2011 10 pages	2010 9 pages	2009 8 pages	2008 1 page	2007 14 pages	2006 13 pages	2005 18 pages	2004 11 pages	2003 10 pages
Employee Welfare and Wellbeing	Standards of Business Conduct and Principles.	□	□	□	□	□	□	□	□	□	□
	Employment Principles – employment practices and workplace related human rights and indigenous labour.	□	□	□	□	□	□	□	□	□	□
	Flexi working time.	□	∩	∩	∩	∩	∩	∩	∩	∩	∩
	Equal Opportunity	□	□	□	□	□	□	□	□	□	□
	Facilities (e.g. in-house clinic, parking)	□	∩	∩	∩	∩	∩	∩	∩	∩	□
Benefits	Medical benefits, cigarette ration, free meals, leave (e.g. annual, sick, compassionate, examination, hospitalisation and maternity), bonus, group term life insurance scheme and other allowances depending on grade (e.g. monthly cash allowance, club membership).	□	□	□	□	□	□	□	∩	∩	∩
Employees' Retirement	Contribute an additional 4% of employees' salaries to the EPF.	□	□	□	□	□	□	□	□	∩	∩
Employee Engagement	Employed communications strategy to deliver the BAT's vision and business objectives.	□	□	□	□	□	□	□	□	∩	∩
Occupational Health and Safety Management	OHSAS 18001: 2007	□	□	□	□	□	∩	∩	∩	∩	∩
	Campaign and programme.	□	□	□	□	∩	∩	∩	∩	∩	∩
	Motorcyclist reflective safety vests to employees who come to work by motorbike.	□	∩	∩	∩	∩	∩	∩	∩	∩	∩
Training and Education	Skills and lifelong learning	□	□	□	□	□	□	□	□	□	□
Trade Union	Freedom of association and collective agreement	□	□	□	□	□	□	□	□	□	□

Source: BAT's Annual Reports, Social Reporting and Corporate Website

√ - full disclosure

□ - partial disclosure

∩ - no disclosure

**Table 5.10: Occurrence of Road and Industrial Accidents**

Year	Number of accidents	Industrial accidents	Other accidents
2012	2	-	Slip and fall and entrapment BAT Australia and Malaysia
2011	1	-	Road accident – driving company vehicles
2010	2	-	Road accident – driving company vehicles
2009	3	Petaling Jaya factory	2 road accidents – driving company vehicles
2008	2	Petaling Jaya factory	road accident – driving company vehicles
2007	3	Petaling Jaya factory	2 road accidents – driving company vehicles
2006	1	-	Vehicles accident
2005	-	-	-
2004	-	-	-
2003	1	-	-

Source: BAT's Annual Report and Social Reporting (2003 – 2012)

### 5.3.4 Discussion on Employee Welfare and Management

Laws on labour in Malaysia are regulated by three main legislations: Employment Act 1955, Trade Unions Act 1959, and Industrial Relations Act 1967, which collectively control and regulate the activities of trade unions in the country. The cause for concern to the union movement is related to the existing institutional framework which continues to restrict trade unions. There are only 701 unions in Malaysia in 2013<sup>204</sup> and not even 10% of the labour force in Malaysia is members of trade unions, of which: 53% are private sector workers, 38% public sector workers, and 9% workers of statutory bodies/local authorities.<sup>205</sup> The small number of trade unions reflects the low rate of approval and the power vested in the Director General's (Labour Department) hands. This mechanism not

<sup>204</sup> MTUC (2013), Country Report: Trade Union Training On Wage-Led, Job-Rich Recovery from Crisis (A355204).

<sup>205</sup> It is estimated that the labour force in Malaysia was about 12.4 million in 2012. Out of this, only 798,941 workers (6.44%) are members of trade unions.

<http://www.themalaysianinsider.com/sideviews/article/workers-and-trade-union-rights-in-bn-ruled-malaysia-part-2-charles-hector>

only characterised a high degree of state intervention in the industrial relations but serves as an adjunct to economic policy – to attract foreign investment and to provide modestly-priced disciplined labour (Peetz and Todd, 2006). The industrial labour relations have weakened other laws pertaining to employment and thus, constrained the ability of the employee to demand his/her rights for health and safety working environment, decent wages, fair pensions and employee benefit. From the three case samples, it can be observed that only TM proclaimed its commitment to sustain professional relationships with the union through regular collective agreements and open dialogues. However, further information about collective bargaining and trade union was not provided.

Generally, the disclosures on employee welfare and management were structured in a narrative form, with some pictures and graphs, and encompassed human resources development issues. The review of corporate reports found that corporations put emphasised on developing internal human capital to enhance their performance. This is consistent with the state's policy to promote human resource development to gain competitive advantage in the long-term. The human resources development policy is governed by the Ministry of Human Resources, which focus on supporting organisations to attain improvement in worker productivity, efficiency, value-added operations and competitiveness (Haslinda *et al.*, 2007).

However, despite corporate proclamations of being socially responsible and their claims of extending their best practices to contractors and suppliers, the occurrence of accidents (including some cases of fatal accidents) remained prevalent and no disclosures were made regarding necessary measures to overcome the problems in the future. Although employee welfare and management initiatives are observed in some corporations, there is room for improvement with regards to, for instance, human rights



policies, non-discrimination and information regarding the occupational related diseases, which is crucial for health and safety aspects of employees.

#### **5.4 Community Involvement and Development**

The increase corporate activity has raised questions about the responsible role of businesses to local communities (Stiglitz, 2002). Such interest has been exaggerated by increasing conflicts and issues such as displacement of indigenous communities for business development, health and disease from products and services, conflicts and struggles over land and environmental destruction (Campbell *et al.*, 2006; Gray, 2002; Parker, 2005). Community involvement and development forms an essential element of CSR, particularly in the context of developing countries. This initiative remains important as the state often lack resources to provide or finance public goods. The following section illustrates how corporations respond to community needs in the wider socio-economic deficits within the country.

##### **5.4.1 Telekom Malaysia Berhad**

The increased concern about the possible health effect of radiation emitted by fixed infrastructure used in the telephony industry such as base stations and their antennas had instigated few studies on the subject (see American Cancer Society,<sup>206</sup> Kumar, 2010; Levitt and Lai, 2010). However, there is uncertainty about the knowledge of the possible effect of the radiation on human health and the result remains debatable (Health Canada,<sup>207</sup> International Agency for Research on Cancer,<sup>208</sup> Kumar, 2010; Schüz *et al.*, 2006). Acknowledging TM's responsibility to the public at large, GSM assured that;

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<sup>206</sup> <http://www.cancer.org/cancer/cancercauses/othercarcinogens/athome/cellular-phone-towers> (assessed in July, 2013).

<sup>207</sup> <http://www.hc-sc.gc.ca/hl-vs/iyh-vsv/prod/cell-eng.php> (assessed in July, 2013).

<sup>208</sup> [http://www.iarc.fr/en/media-centre/pr/2011/pdfs/pr208\\_E.pdf](http://www.iarc.fr/en/media-centre/pr/2011/pdfs/pr208_E.pdf) (assessed in July, 2013).

*“Our base stations are installed in compliance with guidelines set by the Malaysian Communications and Multimedia Commission (MCMC) and the Ministry of Housing and Local Government, which conform to international standards and best practices of safety. We are cautiously ensured that exposure limits to the public and occupational workers are minimal. In fact, we have been informed that radiation effect is low at our telecommunication towers. The towers are built far from residential areas and we opt for fibre optic solution to minimize radiation effect to the surrounding areas.”*

However, Roha *et al.* (2010)<sup>209</sup> found that radiation strengths measured at TM communication towers were slightly elevated. They noted that radiation effect was within MCMC permissible exposure limits for the general public and workers, except at locations where the towers are close to TV antennas. This finding sparks a concern about the possible health effect due to public and occupational exposures to the radiation. Even if there is only a small risk to health, there is potential for a profound public health impact due to long-term exposure. Nevertheless, no information is disclosed about this subject. According to Aiman *et al.* (2010), even though public concerns over the possible health risks of radiation exposure from base stations have increased in Malaysia, it is insufficient to trigger provision of such information.

Despite snubbing health and safety issue over radiation emitted from base stations/communication towers, TM indicated its commitment to the community as follows (Annual Report, 2011: 199);

*“TM’s most significant contribution to the community is the provision of telecommunications services along the length and breadth of the country, as well as its interiors, to enable all Malaysians to connect, communicate and collaborate.”*

The examination of TM’s reports for ten years revealed that community involvement and development expanded over the years (from 3 pages in 2003 to 16 pages in 2012) and includes program such as Sejahtera, scholarship and school adoptions, employee volunteerism, philanthropic activities and sports development (see table 5.11). The

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<sup>209</sup> The research was done in collaboration between Malaysian Nuclear Agency and TM Research and Development Sdn. Bhd. in 2010.

information focused mostly on philanthropy giving in areas such as charitable donations, disaster relief and sports. Most of CSR disclosures were in a narrative form with some photographs, but information like donation was given in monetary values. As part of the community and nation building initiatives, TM aimed to bridge the digital divide in society by reducing the gap between the urban and rural areas on internet facilities and infrastructure. However, a closer examination of community initiatives indicated that CSR was designed to assist disadvantaged *Bumiputera* community in the rural areas. This showed TM support towards the state initiatives to alleviate poverty and provide equitable access to quality education.

Besides, community initiatives at TM's subsidiaries abroad (such as Sri Lanka, Indonesia, Bangladesh, Cambodia, Thailand, Singapore, India, Pakistan and Iran) focussed on education and community support in the form of computer donations, construction of labs and cash and in-kind assistance.<sup>210</sup> In 2005, the group and its overseas subsidiaries claimed to contribute a total of RM6.7 million of cash and manpower to help Tsunami victims in Malaysia, Sri Lanka, Indonesia and Thailand and USD100,000 to Pakistan's earthquake victims.

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<sup>210</sup> Annual Report 2005, 2006 and 2007.

Table 5.11: TM's Community Involvement and Development

Programme	Initiatives Sustainability Report	Disclosures									
		2012 16 pages	2011 16 pages	2010 8 pages	2009 7 pages	2008 8 pages	2007 6.5 pages	2006 4.5 pages	2005 3 pages	2004 6 pages	2003 3 pages
Sejahtera Foundation	Adopted families of single mother to improve their standard of living and economy.	□	□ RM5,000	□	□	∩	∩	∩	∩	∩	∩
Education	TM Foundation (Scholarship)	√ RM15.3 million	√ RM19.2 million	□ RM16.53 million	□ RM23.1 million	□ RM20.1 million	□ RM32.05 million	□ RM45.6 million	□ RM32 million	□ RM33 million	□ RM19.8 million
	School adoption: • Ministry programme • PINTAR Foundation	□	□ RM27,000 SKPKP <sup>211</sup>	□	□ RM100,000	□	□	□	□	∩	∩
Employee Volunteerism	Soft skills training	□	□	□	□	□	∩	∩	∩	∩	∩
Philanthropic activities	Donation to beneficiaries undertaking educational related activities	√ RM101,195	√ RM150,000	∩	∩	∩	∩	∩	∩	∩	□ RM210,000
	Humanitarian / Disaster reliefs contributions	√ RM50,000	∩	√ RM10,000	∩	□ RM620,000	∩	□ RM1.2 million	□	□	∩
	Donation to communities	√ RM65,000	√ RM1.5 million	∩	√ RM1.2 million	□ RM5.5 million	□ RM24.03 million	□	□	□	□ RM653,600
	Donation to police department	∩	∩	∩	∩	□ RM250,000	∩	∩	∩	∩	∩
	Sporting activities	∩	∩	∩	∩	□	□ RM17.33 million	□	□	□	□ RM10.5 million

Source: TM's Annual Reports and Sustainability Reports, TM's Website and Interview Data

√ - full disclosure

□ - partial disclosure

∩ - no disclosure

<sup>211</sup> SKPKPT – Sekolah Kebangsaan Pendidikan Khas Pekan Tuaran in Sabah (primary school for visually impaired children). TM is the first GLC among PINTAR participating companies to adopt a school for special needs children.

### 5.4.2 IOI Corporation

The IOI's CSR policy on community engagement states (Annual Report, 2003: 38);

*“As a caring corporate citizen, we take our social responsibilities seriously. Giving something back to the community is simply part of our corporate culture... To us, the most important way in which we help is by providing good schools and scholarships for the children of our plantation estate workers. After all, education is what opens the door to a brighter future.”*

It could be observed that community involvement and development at IOI include contribution to the private family foundation and contributions were focused on education, charitable giving and philanthropic (see table 5.12). However, this information was mostly structured in a narrative form, with some few photographs and monetary measures. Besides, the examination of corporate reports found that IOI provides more disclosures in 2009 and 2010, perhaps as a counter response to the allegation made by the environmentalist NOGs (discussed in previous section).

A closer examination of community initiatives indicates that CSR is designed to provide quality education and to assist disadvantaged *Chinese* community (although include donation to few Indian schools). The initiatives also claimed to provide education and care to children of foreign plantation workers in Sabah through HUMANA<sup>212</sup> project. However, increasing evidence revealed a gap between corporate promises of responsible business practices and the practice of its subsidiary. The group faced inherited land dispute with indigenous community in Sarawak since 2006, as a result of IOI's acquisition of Pelita Plantation. As an effort to resolve the conflict, IOI stated (Annual Report, 2010: 3);

*“[T]he Group is committed to resolve the dispute in an amicable manner and is working with the RSPO on an action plan using the RSPO's Dispute Settlement Facility.”*

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<sup>212</sup> HUMANA – the Borneo Child Aid Society, Sabah.

Table 5.12: IOI's Community Involvement and Development

Initiatives	Programme	Disclosures									
		2012 1.5 pages	2011 2 pages	2010 5.5 pages	2009 6.5 pages	2008 2.5 pages	2007 <1 page	2006 <1 page	2005 <1 page	2004 <1 page	2003 <1 page
Education	Annual Report										
	TSLSC Foundation – scholarship	□ RM1.22 million	□ RM302,628	□ RM282,000	□ RM489,000	□ RM582,000	□ RM216,000	□	□	□	□
	School adoption	□ RM416,868	□	∩	□	□ RM800 and school bag	∩	∩	∩	∩	∩
	Student adoption	□	□ RM800 and school bag	∩	∩	∩	∩	∩	∩	∩	∩
	Constructed/Donation to Chinese school	∩	∩	∩	∩	□ RM7 million	□ RM100,000	□ RM770,000	□ RM375,000	∩	∩
	HUMANA centres	□	□	□	□	□	□	∩	∩	∩	∩
	World Vision Malaysia - provides education and care to native children in Sarawak.	□ RM30,000	□	∩	□	□	∩	∩	∩	∩	∩
Donation to beneficiaries undertaking educational related activities / school	□ RM1.056 million	□ RM1 million	∩	∩	∩	□ RM260,000	∩	□	∩	□ RM1 million	
Community	Hospitals, welfare homes and charitable bodies	□ RM116,000	□ RM140,850	□ RM32,000	□ RM51,000	□	□ RM72,000	□	□ RM100,000	□ RM10,000	□
	Humanitarian reliefs	∩	∩	∩	∩	∩	∩	∩	□ RM407,000	∩	∩
	Mobile police unit	∩	□	∩	∩	∩	∩	∩	∩	∩	∩
	Reducing crime	□ RM20,000	□ RM20,000	∩	∩	∩	∩	∩	∩	∩	∩
	Promote healthy lifestyle	□ RM5,000	∩	∩	∩	∩	∩	∩	∩	∩	∩
	Festive season – charity open house	□	□	□	□	∩	□	□	□	□	□
	Donation to beneficiaries undertaking industry related activities	□ RM100,000	□ RM1 million	∩	∩	∩	∩	∩	∩	∩	∩
Sporting activities	∩	∩	∩	□ RM26,000	∩	∩	∩	∩	∩	∩	

Source: IOI's Annual Reports and Corporate Website

√ - full disclosure

□ - partial disclosure

∩ - no disclosure

Notwithstanding court ruling in favour of community in 2010, the IOI Pelita Plantation was alleged to continue to trespass on the community's native customary lands (The Nut Graph). In addition, the subsidiary was alleged of using mixed chemicals, which was sprayed close to the river, risking the villagers' water catchment area. The practice of IOI subsidiary was claimed to breach the standards of the RSPO, of which IOI: (1) failed to engage openly and poor consultation with affected communities to resolve the dispute; and (2) breached certification standards, which forbid RSPO members from engaging in illegal activities, operating in areas with significant land conflicts and the destruction of primary rainforests.

#### **5.4.3 British American Tobacco Malaysia**

The tobacco industry faces constant pressure from both domestic and international health authorities with regard to the apparent paradox of 'responsible product' which is identified as the major preventable cause of disease and premature death (Barraclough and Morrow, 2008). The industry is facing a crisis of legitimacy; *"perhaps no industry has been subjected to such serious erosion of its legitimacy as the tobacco industry"* (Davidson, 1991: 49). It has been argued that smoking among adults in Malaysia accounts for 21.5% of the population (43.6% males and 1.6% females) in 2010 (Southeast Asia Initiative on Tobacco Tax, 2013).<sup>213</sup> In addition, the Global Youth Tobacco Survey 2009 found that 19.5% of 13 to 15 year olds used some form of tobacco products, 18.2% smoking cigarettes and 9.5% using other tobacco products (Southeast Asia Initiative on Tobacco Tax, 2013). In 2006, smoking-caused diseases accounted for at least 15% of hospitalised cases and about 35% of hospital deaths (Southeast Asia Initiative on Tobacco Tax, 2013).

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<sup>213</sup> [http://tobaccotax.seatca.org/?page\\_id=98](http://tobaccotax.seatca.org/?page_id=98) (assessed in December, 2013).

The 'legitimacy crisis' faced by BAT might explain the concerted efforts undertaken in social reporting which centred on three main issues; youth smoking prevention, consumer information and combating illegal cigarettes. Such voluntary initiatives perhaps underline BAT's commitment in the production of 'responsible product' (Annual Report, 2011: 107);

*"At British American Tobacco Malaysia, we accept that smoking is a health risk. Our business is not about persuading people to smoke but in offering quality brands to adult smokers. As such, in line with maintaining transparency towards our products, we want our consumers and stakeholders to know the facts of ingredients used by our Company in the manufacture of tobacco products."*

BAT's CSR policy on community emphasised (Annual Report, 2012: 83);

*"British American Tobacco Malaysia places the highest commitment towards conducting Corporate Social Investment activities that support the sustainability of our surrounding communities."*

In line with this pledge, BAT utilised several CSR-related mechanisms and this include providing education opportunities for students (including children of deserving employees, retailers, tobacco leaf growers and leaf curers), philanthropy, employee volunteerism, external contractors and supplier program, customer health and safety (see table 5.13). Most of CSR disclosures were in a narrative form with some pictures, but information like scholarship and donation were given in monetary values. To show its commitment, the scholarships awarded were non-binding and recipients were given the opportunity to join the group as interns and trainee (Annual Report, 2010: 56). In addition, the Higher Education grant aimed to ease the financial difficulties of students from the tobacco growing community to pursue higher education. The provision of the grants claimed to assist the socio-economic development of the Malay community, since almost all families involved in the tobacco production are Malays (Barraclough and Morrow, 2008).



Table 5.13: BAT's Community Involvement and Development

Initiatives	Programme Annual Report and Social Reporting	Disclosures									
		2012 5 pages	2011 6 pages	2010 5 pages	2009 3 pages	2008 2 pages	2007 6 pages	2006 6 pages	2005 9 pages	2004 8 pages	2003 10 pages
Education	Scholarship	√ RM224,000	√ RM317,618	√ RM395,000	√ RM307,000	√ RM439,500	√ RM91,021	√ RM85,388	□	□	√ RM280,000
	Higher Education grant (tobacco farming and curing families)	√ RM98,700	√ RM147,000	√ RM128,500	√ RM214,000	√ RM201,100	√ RM101,750	√ RM73,000	□	□	□
Philanthropy	Poverty Eradication – food aid through MyKasih Foundation	√ RM3.16 million	∩	∩	∩	∩	∩	∩	∩	∩	∩
	Donation (state foundation and charitable bodies)	∩	∩	∩	∩	□	□	∩	□	□	□
	Disaster reliefs (include contribution from employees)	∩	∩	□ RM65,400	∩	□ RM801,000	□ RM808,057	∩	□ RM147,542	∩	∩
	Replant the crops of tobacco farmers destroyed by floods.	∩	∩	∩	√ RM10 million	∩	∩	∩	∩	∩	∩
Employee Volunteerism	Employee Volunteer Programme (e.g. blood donation, cleaning waterfall and beach)	□	□	□	□	∩	∩	∩	∩	∩	∩
	Tree-planting campaign in the housing area – utilized the grant by the Earthwatch.	□ GBP 1,500	∩	∩	∩	∩	∩	∩	∩	∩	∩
	Disabled, folks' homes and orphanage	∩	□	□ RM34,250	□	□ RM20,000	□	□	□	□	□
External Contractors and Supplier	Green card programme – briefing and assessment of the Environment, Health and Safety	□	□	∩	∩	∩	∩	∩	∩	∩	∩
	Business Enabler Survey Tool – increase value in the supply chain.	□	□	□	□	∩	□	□	∩	∩	∩
	Social Responsibility in Tobacco Production (SRTP): • child labour • agricultural practices – the use of agrochemicals and the environmental, occupational health and safety issues	□	□	□	□	□	□	□	□	□	□
Customer Health and Safety	Control of Tobacco Products Regulations 1993/2004	□	□	□	□	□	□	□	□	□	□
	Youth smoking prevention	□	□	□	□	□	□	□	□	□	□
	Health and Safety Issues	□	□	□	□	□	□	□	□	□	□

Source: BAT's Annual Reports, Social Reporting and Corporate Website

√ - full disclosure

□ - partial disclosure

∩ - no disclosure

The examination of corporate reports found that most of CSR engagements were conducted through the Employee Volunteer Programme. The employees donated their time and money voluntarily to corporate-sponsored community involvement projects. Although the programme was undertaken by the employee, such an involvement gave credit to the corporation as it helped to project a benevolent public image.

BAT claimed to protect public health by isolating smokers; however it indirectly establishes that smokers have a legitimate right to smoke in a designated location (Barraclough and Morrow, 2008). In this context, perhaps CSR might be seen as a means to distract attention from the disastrous health and safety impact of the product and hence, legitimise corporate self-regulation. Besides, BAT claimed to publish information about health and safety of its product, including the ingredients on a corporate website which is accessible by the general public.<sup>214</sup> However, despite corporate commitment to demonstrate accountability and transparency, BAT did not disclose vital information about the implication of health and safety as a result of the use of the products to the smokers and passive smokers. Without addressing the harmful health effects of the tobacco smoke and future tobacco related mortality, BAT advocates balancing the interests of smokers and non-smokers in dealing with public smoking.<sup>215</sup>

#### **5.4.4 Discussion on Community Involvement and Development**

The main concern in the community involvement and development is related to the issue of power and the measurement of CSR effectiveness, which rarely involves affected minorities at the '*receiving end of CSR*' (see Blowfield, 2005). CSR initiatives commonly framed within the stakeholder management and control which offers limited insights to CSR. Although corporations claimed to make substantial contributions to address the

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<sup>214</sup> Annual Report 2011: 107.

<sup>215</sup> Annual Report 2012.

needs of underprivileged communities, it can be observed that program monitoring and measurement of impact and output is seldom on the corporate agenda. This partly explained the absent of corporate reporting related to potential disputes and conflicts with the community, particularly those involved indigenous people.

The examination of various reports and documents, including reports by the international NGOs revealed that corporate pursuit for profit often brought them into conflicts with the community and environment deterioration. The philosophy of bottom-line reporting which provided the benchmark of CSR engagement offered limited insight into the practice of CSR. Hence, information about the wider impacts of business activities on the public at large and environmental wellbeing remained problematic.

It was found that corporations implemented broad CSR program, but it was mainly translated into corporate philanthropy and charitable giving. It can be observed that community involvement and development was designed to assist the disadvantaged community, promised make to support the state's initiatives to alleviate poverty and provide equitable access to education. However, Newell and Frynas (2007: 670) argue that when aligning CSR to development agenda, differentiation between business-as-usual (CSR as a business tool) and business-as-CSR (CSR as a development tool) is pertinent. Thus, the question to address is: *"how, when and through what means business can help to reduce poverty, while recognising the equally powerful potential of the business community to exacerbate poverty"* (Newell and Frynas, 2007: 672). Hence, the relations between CSR and socio-economic development remain to be seen in the context of Malaysia.

## 5.5 Responsibilities to the State

The economic and political power that corporations possess has stimulated the debates on the responsible role of corporations to the state (Christensen *et al.*, 2004; Sikka, 2010). The concern is attributed to the belief that responsible practices could indeed foster social development through for instance, the provision of jobs, local investment and transfer of technology.

### 5.5.1 Telekom Malaysia Berhad

The examination of corporate reports found that most of the initiatives were designed to support the state's vision and policy, including achieving universal access, universal coverage and universal service, graduate employment programme, local purchase and vendor development programme and anti-corruption (see table 5.14). Most of disclosures were structured in a narrative form, with some few photographs. To assist the country's communications and content infrastructure, TM developed a Content Service Delivery Platform and embarked on national High-Speed Broadband (HSBB) project on the basis of public-private partnership. The HSBB is the flagship of National Broadband Initiative which aims to offer high speed broadband at relatively low prices. The development of HSBB involves the utilization of USP<sup>216</sup> fund which raised public and private concern about the management and the allocation of the fund.<sup>217</sup> Besides, the Wireless Village

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<sup>216</sup> USP Fund is established and controlled by MCMC, aimed to provide telecoms facilities and internet access to under-served areas (area which telecommunications operators have not ventured into due to insufficient demand – Communications and Multimedia Act Section 204). The fund came into force in 2003, collecting at least 6% revenue from all licensed telecommunications operators including Telekom (Jayaseelan, 2009).

<http://biz.thestar.com.my/news/story.asp?file=/2009/12/4/business/5236737&sec=business>

<sup>217</sup> The contributor of the Universal Service Provision (USP) fund asked MCMC to be more transparent on how this fund is managed to achieve the goal of bridging the country's digital divide. The fund was disbursed to TM as the main fixed line operator.

<http://www.johnnyt.com/2009/12/contributors-to-usp-fund-want-to-know.html> (assessed in July, 2013).

project which also utilized USP fund has received public complaints due to limited coverage and sluggish internet connection speed (Utusan, 2013).<sup>218</sup>

The review of TM's Annual Report found that the group paid no income tax for the year 2011 and 2012, due to a large amount of tax incentives which were used to set off current year taxable income.<sup>219</sup> Additional information regarding tax incentives computation seems necessary to be included in the report, as the group could claim 50% of capital expenditure incurred for HSBB project from the state. In addition, little information was disclosed on TM's intention to promote local entrepreneurs through its local purchase programme and vendor development programme. The group launched the Integrity Pact which claimed to adhere to the National Integrity Plan, but the agreement only underlined a commitment between TM and its vendors to abstain from bribery, collusion and any other corrupt practices. TM remains silent about its anti-corruption measures in its dealing with the state procurements as this involves societal interests. Nevertheless, the Auditor General Report (2012) revealed that RM11.6 million in excessive and frivolous payments were made to TM in developing the Malaysia Emergency Response System (MERS) 999. Despite the extra resources paid to TM, the report found that the MERS 999 had performed poorly as a total of 7.65 million calls, or 32.4 percent of the total calls made to the emergency number were left unanswered.

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<sup>218</sup> The installation of the routers was mainly focused in the public areas (such as a village hall) and the Wi-Fi signal could only be detected within an average of 200 meters.

<sup>219</sup> The group was granted approval under Section 127 of the Income Tax Act (1967), in the form of Investment Allowance Incentive. The state approved 100% investment allowance on capital expenditure incurred by last mile network facilities provides for broadband infrastructure and investment allowance of 60% on capital expenditure incurred for HSBB infrastructure in 2008. These incentives may be offset against 70% of the total statutory income for each year of assessment.

Table 5.14: Supporting the State's Initiatives at TM

Programme	Initiatives Sustainability Report	Disclosure									
		2012 5.5 pages	2011 3 pages	2010 3 pages	2009 2.5 pages	2008 <1 page	2007 page	2006 page	2005 page	2004 page	2003 page
The state's vision of achieving universal access, universal coverage and universal service.	<ul style="list-style-type: none"> <li>Community Broadband Centres and Community Broadband Libraries</li> <li>Wireless Village</li> </ul>	□ Number of centres given but fund invested was absent.	□ Number of centres given but fund invested was absent.	□ Number of centres given but fund invested was absent.	∩	∩	∩	∩	∩	∩	∩
Graduate Employment Programme	<ul style="list-style-type: none"> <li>1Malaysian Training Scheme – SL1M</li> <li>High End Industries Graduate Internship Programme</li> <li>Retraining programme</li> </ul>	□	∩	∩	∩	∩	□	□	∩	∩	∩
Local purchase programme	<ul style="list-style-type: none"> <li>Prioritising local suppliers of goods and services where equivalent products are available.</li> <li>Committed to maximising <i>Bumiputera</i> and local participation in its sourcing activities.</li> </ul>	□	□	□	□	□	∩	∩	∩	∩	∩
Vendor Development Programme (VDP)	Focused on developing high performing <i>Bumiputera</i> suppliers by organizing development programmes.	□	∩	∩	∩	∩	∩	∩	∩	∩	∩
Anti-corruption measures		∩	□	□	□	□	∩	∩	∩	∩	∩
Others	National Day Celebration	∩	∩	∩	∩	∩	□ RM0.5 million	□ RM0.5 million	□	∩	∩

Source: TM's Annual Reports and Sustainability Reports, TM's Website and Interview Data

√ - full disclosure

□ - partial disclosure

∩ - no disclosure

### 5.5.2 IOI Corporation

The IOI's CSR policy includes responsibility to the state. However, the examination of information disclosed either in the corporate reports or website found no disclosures on the subject including tax planning scheme and payment of taxes. The group only documented a contribution of RM15,000 to "*Tabung Kebajikan Pendidikan Pelajar Miskin Luar Bandar*" (fund for underprivileged students) to assist the state in helping underprivileged students to obtain a proper education.<sup>220</sup> Although IOI claimed to conduct its business around the world in an accountable and responsible manner and in accordance with all applicable law and regulations, its obligation to the Malaysian state and society poses considerable questions.

### 5.5.3 British American Tobacco Malaysia

Given the 'legitimacy crisis' of BAT products, it is politically crucial for BAT to work together with the state, through its engagement to support the national socio-economic initiatives (Barraclough and Morrow, 2008). BAT had worked closely with the regulators and enforcement machinery to combat illegal cigarettes. It has been reported that Malaysia lost \$622 million in revenue in 2012 due to illegal cigarettes, despite the fact that almost every other male adult is a smoker (The Wall Street Journal, 2013).<sup>221</sup> According to BAT's Annual Report (2012: 91);

*"Illegal cigarettes trade is not a victimless crime – it undermines the Government's health objectives because they are sold at extremely low prices and do not comply with any regulatory requirements. It also costs the Government an estimated RM2 billion in lost taxes each year."*

The growing problem of illegal cigarettes in the market has witnessed BAT working together with the state agencies to educate the public on the features of illegal cigarettes,

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<sup>220</sup> Annual Report 2004.

<sup>221</sup> <http://blogs.wsj.com/searealtime/2013/10/02/malaysian-tax-revenue-goes-up-in-smoke-from-illegal-cigarette-sales/> (assessed in December, 2013).

its implications for the nation and penalties involved. According to the Annual Report (2008: 64);

*“Illicit tobacco trade not only increases criminality and social ills in Malaysia but also affects legal businesses and results in huge annual tax revenue losses to the Government which could have been spent on public services. Illicit tobacco trade also affects the livelihood of Malaysian tobacco farmers and dupes consumers into buying products of dubious quality as illicit cigarettes do not comply with regulatory requirements.”*

Nevertheless, the collaboration with the state in monitoring and curbing the illegal trade of cigarettes might explain the threat of illegal trade posed to BAT ‘legitimate’ businesses. A review of corporate reporting and media release illustrated the marketing strategies used by BAT, which blamed high taxes as a cause for the growth of illegal trade and consequences for cash-strapped smokers who consumed illegal cigarettes. The strategies unconsciously propagated a message to the public that BAT products are much safer and thereby, ‘legitimises’ its business. It is claimed that high tax rate increase smuggling, which apparently reduced BAT’s revenues and in turn, caused the state to loss tax revenues (Annual Report, 2012). However, the examination of Annual Report and Social Reporting found the growth in BAT revenues and payment of taxes increased over the years.

Table 5.15 shows BAT’s initiatives in supporting the state’s agendas. In contrast to BAT’s rich history and expandable operation in Malaysia, the tobacco related employment is small and in fact, decreasing over the years (2012: 1,032; 2011: 1,191; 2010: 1,540; 2009: 1,656).



Table 5.15: Supporting the State's Initiatives at BAT

Initiatives	Programme Annual Report	Disclosures									
		2012 1 page	2011 4 pages	2010 3 pages	2009 2 pages	2008 2 pages	2007 4 pages	2006 4 pages	2005 1 page	2004 1 page	2003 1 page
Supporting government's agenda of eradicating hard core poverty.	Building homes for hard core poor	□ RM1.16 million	□ RM660,000 20 homes	□ RM495,000 15 homes	∩	∩	∩	∩	∩	∩	∩
National 1Malaysia staff upskilling and safety programme.	The Defensive Driving Training programme	□	□	□	∩	∩	∩	∩	∩	∩	∩
Tackling illicit trade	Awareness campaign	□	□	□	□	□	□	□	□	□	□
Payment of taxes		□ RM2,414 million	□ RM2,333 million	□ RM2,174 million	□ ≈RM2,076 million	∩	□ ≈RM1,952 million	□ ≈RM1,823 million	□ ≈RM1,747 million	□ ≈RM1,500 million	□ ≈RM1,300 million
Subsidies received – refers to grants, tax relief and other types of financial benefits		∩	∩	∩	□ RM3.4 million	∩	□ ≈ RM427,680	□ ≈ RM250,271	□ ≈ RM722,056	□ ≈ RM297,794	□ ≈ RM2,815 million

Source: BAT's Annual Reports, Social Reporting and Corporate Website

√ - full disclosure

□ - partial disclosure

∩ - no disclosure

#### **5.5.4 Discussion on the Responsibility to the State**

Under the state administrative guidelines and policies, CSR initiatives are aligned to support national plans to alleviate poverty, provide better access to education and basic services to underserved communities. The administrative policies have not entirely negated the *Bumiputera* policies, but further shape governance mechanism including the production of CSR. For instance, public-listed corporations are required to disclose employment composition by race and gender and programmes undertaken to develop domestic and *Bumiputera* vendors. GLCs as a core sector of *Bumiputera* economic reform have become a major player in the practices of CSR.

Despite the stated commitment of being socially responsible and pledges made to support the state's socio-economic agendas, none of the corporations under review disclosed their tax planning strategies or other mechanisms used to minimise their tax burden. Disclosures of tax planning and other 'financial engineering schemes' would increase the public's awareness of corporate mechanisms used to minimise the tax burden. Although BAT had disclosed the amount of taxes paid to the state which might be used to finance social infrastructures, the corporation received subsidies, in terms of grants, tax relief and other types of financial benefits.

#### **5.6 Understanding Corporate Role in the Society**

The state is expecting corporations to work together to the achievement of national development goals, amongst other things, by providing equitable access to education, health and basic infrastructure and alleviating poverty. This is observable in the texts analysed in the Tenth Malaysian Plan and corporations explicitly acknowledge this partnership as one of the factors catalysing corporate action on CSR. The following example illustrated corporation commitment to support nation-building agendas;

*“... Nation-building continues to form a core component of our CR initiatives, under which we endeavour to bridge the digital divide and provide support to underprivileged communities to create greater socio-economic equity” (Telekom Malaysia)<sup>222</sup>*

The review of documented evidence indicated that corporations perceived long term returns and direct business benefits from proactive engagement in CSR-related initiatives. Two perspectives can be identified; (1) framing CSR based on business reasons and profit-making argumentation; and (2) caring for the society and environmental wellbeing which was framed within the stakeholder framework.

### **5.6.1 Business Case and Profit-Making Shape CSR Understanding**

In response to wider social and institutional pressures, corporations engage in CSR-related activities (Frederick, 2006; Matten and Crane, 2005; Vogue, 2005). The business case for CSR provides justification for corporate engagement in CSR, suggesting that there is a link between CSR and corporate financial performance (Carroll and Shabana 2010; Jensen, 2002). The business case framed CSR as a vital part of successful business operations, in which CSR was socially constructed to contribute to growth opportunities, profitability and sustainability. This can be illustrated from the case of Telekom Malaysia;

*“Our actions are based on the belief that CR contributes towards **building a sustainable business...**”*

According to the group senior manager interviewed (GSM);

*“It is about doing what is right and maintaining good standards of business practice. It is no longer about corporate branding or image but about good governance, accountability, transparency and responsibility to various stakeholders. CSR makes **good business sense in the long run** as it contributes towards building **lasting goodwill and trust in TM brand.**”*

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<sup>222</sup> Annual Report (2011: 17)

The impacts of CSR were described in very broad terms, in which corporations emphasised CSR as an element that contributed to the corporate performance and growth. Hence, it can be observed that CSR was often positioned as an integral part of business activities or overall business strategy, as illustrated by the following example;

*“IOI’s approach on Corporate Responsibility is to **strike a Sustainable Balance** between the conflicting demands of internal and external stakeholders **in our pursuit of profits and growth**. Our operating principles on “sustainability” are reflected in our vision statement and Code of Business Conduct since 1995 – way before “social-environment” and “global warming” concerns took the global centre-stage.”*

Although CSR was generally described as a part of strategy or one of the factors contributing to success, it can be ‘seen’ that corporate engagement in CSR was to maintain congruence between social values and business activities. The corporate commitment to CSR was to establish legitimacy and justification of CSR engagements.

This was illustrated in a case of BAT;

*“In British American Tobacco Malaysia, we believe that our business must demonstrate responsibility in everything that it does and this includes compliance with regulatory requirements. Acknowledging that tobacco consumption poses real risks to health, we continue to **support sensible tobacco regulations that balance the preferences of consumers with societal interests whilst enabling our business to continue to compete.**”*

Nevertheless, the present form of corporation as a profit-making function offers limited insight into the practice of CSR. Critics argue that corporate commitment to CSR is often considered in conjunction with economic performance, which often benefit the corporate bottom-line (Banerjee, 2008). This concern can be illustrated from the interview of TM’s managers at the state-operational level (SOM). These managers were concerned about the scope of engagement and limited budget, which in turn, constrain CSR engagement.

SOM1 argued;

*“At the state-operational level, CSR initiatives are not only driven from headquarters but also came from local authorities who demanded us to assist in communities events. But we **have target to achieve** like sales volume and profit. Thus, we could **not merely focus on CSR alone** but to merge those initiatives with our daily operations such as making sales. It is like **win-win situation, both for the company and the community.**”*

Consequently, CSR initiatives at the state-level were mainly focused on community events which they anticipated would bring benefits to TM. Even though the establishment of TM is to fulfil social obligation, but these managers share the view that TM should balance between commercial objectives and social obligation. Although GSM stressed that CSR is not a financial burden, but the pressure to increase profits at the state-operational level may make social and environmental considerations vulnerable since CSR engagement tends to be selective.

The philosophy of 'bottom-line' accounting which provides the benchmark of CSR-related activities may offer limited insight into the practices of CSR. The profit-oriented rationale shape the way CSR is managed, in which managers set priorities which are then, aligned to the overall business strategy and objectives. Consequently, CSR becomes a managerial process, in which corporation undertakes to be seen as socially and environmentally responsive. Thus, the business case which dominates public debates, espousing the claim that corporation can 'do well by doing good' is often misleading as CSR becomes 'business as usual'. In this context, critics argue that it is necessary to distinguish between rhetoric of CSR and concrete action, as corporations often engage in symbolic and rhetoric framing of activities in order to manage their public image (Campbell, 2007). However, due to limited access to corporations, this study was unable to critically assess corporate engagement in CSR.

### **5.6.2 Framing CSR within the Stakeholder Framework**

The analysis of corporate reports revealed that corporations present themselves as 'caring', in which they portray themselves as responsible social actor seeking to contribute to the development of society.

*“We shall strive to achieve **responsible commercial success** by satisfying our customers’ needs, giving superior performance to our shareholders, providing rewarding careers to our people, cultivating mutually beneficial relationship with our business associates, caring for the society and the environment in which we operate and contributing towards the progress of our nation.” (IOI)<sup>223</sup>*

The element of caring constructed in corporate reports and documents has been observed by other scholars as well. For instance, Livesey and Kearins (2002) analysed the construction of caring corporations by examining the corporate reports of Shell and Body Shop. They suggest that corporate reports formed as a part of a larger rhetoric effort to portray corporations as caring and sensitive to social concerns and environmental wellbeing.

### **5.6.3 Discussion: The Role of Corporations in a Society**

A number of observations can be made from the analysis of corporate reports and documents from the three sample cases. Whilst corporate engagement in CSR was expanded across the period, exemplifying broad corporate commitment to address social and environmental concern, it should be noted, though, that the underlying purpose of a modern corporation remains unchanged – the pursuit of profit.

It can be seen that responsible corporate behaviour was framed in the reports in very broad terms but limiting to activities such as philanthropy and charitable giving. It can be seen that construction of CSR was often linked to business core activities and voluntarily engaged other social actors in collaborative action and inspiring them to contribute to the society together.

*“CSR provides us with **opportunities to do something good for society... something that ordinary people like us could do**. For instance, cleaning worship places like mosques, donate money and unused clothes... and so on. The God will give **reward on whatever good deeds** that we had done.” (TM)*

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<sup>223</sup> Annual Report (2012: 1)

*“Our **employees** have tirelessly **dedicated their time and commitment** to our numerous Employee Volunteer Programme (EVP) activities since its inception eight years ago... embarked on initiatives that have seen EVP participants volunteer their quality time and funds to **put a smile on the faces of the less fortunate.**” (BAT)*

The broader discussion on the meaning of CSR and the role of corporations in the society, to a large extent, was shaped by the state’s administrative guidelines and policies, attempting to achieve a balance between economic development and social goals. There is no single role with distinct duties and responsibilities assigned for corporations, particularly GLCs, but the production of CSR is aligned to support national development agendas.

In the reports examined, corporations are not only seeking to address the issues and problems raised by the stakeholders, but also engaging in efforts to adopt responsible behaviour practices. However, while the vast scope of responsible activities and initiatives was stressed in the corporate reports, problems remain on the ‘sincerity’ of corporate commitments to CSR. Thus, it seems that business continues as usual without significant threat to its organisational legitimacy.

## **5.7 Summary and Conclusion**

The examination of corporate annual report, social reporting and corporate website was not meant to be comprehensive or exhaustive, or to measure quantitatively CSR initiatives. Rather, the review sought to illustrate the nature and extent of CSR-related activities, by considering different shareholding structures of selected corporations. Three sample cases yielded examples on how corporations in Malaysia understand and engaged in CSR-related activities and further managed competing demands which might threaten organisational legitimacy. However, in the context of contemporary global capitalism which underlines profit maximisation and complex institutional structures

predicated on *Bumiputera* policy, CSR present considerable challenges for corporations and the state.

A closer examination of corporate reports and documents revealed that *Bumiputera* policy not only predicated the path of nation-building, but considerably shaped CSR in Malaysia. The appointment of politicians and former government officers on the corporate board might be seen as a means to inculcate governance structure, in order to meet national policies, disguised in terms of *Bumiputera* policy. However, it seems that *Bumiputera* representation on the board was only politically crucial either to secure contracts, tenders, licences or concessions from the state, or to symbolically conform to *Bumiputera* policy. Nevertheless, the conflicts and contradictions in the efforts of managing competing pressures would perhaps impede the development of institutional structures in promoting social responsibility and public accountability due to present institutional constraints.

Nevertheless, the development of CSR can be seen as the state's effort to legitimise social and economic relations and to address the community's concerns regarding the patronage-based economic system which has entrenched Malaysia's political economy. It can be seen that CSR initiatives are mostly driven by the state through its agencies and focused on poverty alleviation and providing equitable access to education. Such focus presumably suggests that the country's national policies are still struggling to address poverty, which has affected underprivileged communities' lives and livelihoods, in terms of the lack of educational opportunities and basic services.

Whilst the state has outlined various strategies to transform Malaysia into a developed country by 2020, there seems to be a general disagreement of what constitutes CSR. The examination of various reports and documents showed gaps in the knowledge of CSR and how it can be 'operationalised' in the best interest of the public at large. The



review of corporate reports and documents for selected corporations showed that corporations increasingly pledged their CSR commitment by endorsing for instance, codes of conduct and social and environmental policies. However, CSR initiatives often involved charitable giving in the areas related to education and poverty alleviation, and donations to the poor and needy, particularly during the festive seasons. Nevertheless, philanthropy offers limited insights into the practice of CSR, as CSR should be more than just charitable giving. Part of this might be explained by the fact that most of the CSR initiatives are driven by the state through its agencies such as PCG. Most of the information disclosed was limited to descriptions of actions and not specific metrics or measures. Table 5.16 provides a summary of CSR initiatives of corporations under reviewed.

Besides, the 'comply and explain' approaches of Bursa's Listing Requirements for public-listed corporations confer considerable powers to corporate managers to define CSR based on their own terms. As a result, information reported remained at the discretion of corporate managers and tends to be selective. In this context, CSR is used to "*create, distribute and mystify power*" (Buhr, 1998: 165), influencing the truth claims of the accounts, which in turn, shapes social relations in a capitalist society. Hence, glossy reporting might be viewed as a statement of propaganda, as it is used to create and maintain particular corporate images and to communicate information as favourably as possible.

Table 5.16: Summary of CSR Initiatives

	<b>Telekom</b>	<b>IOI</b>	<b>British American Tobacco</b>
Shareholding Structure	State's control through Khazanah	Family-owned	The state is the second largest shareholder
Types of Corporation	GLCs	Chinese-owned Corporation	Public-listed Corporation
<i>Bumiputera</i> Composition in the Board	78%	11%	33%
<b>Framework</b>	Bursa Malaysia's CSR Framework	People, planet and profit to achieve a sustainable balance	Bursa Malaysia's CSR Framework
<b>CSR Initiatives:</b>			
Environment	Green infrastructure	Production of sustainable palm oil	Afforestation programme
		Violates compliance with the RSPO standard, Indonesian legislation and IOI's CSR Policy.	
Employees Welfare and Management	Human resource development	Disclosures were minimal – information was disclosed only on the corporate website.	Occupational health and safety.
	Accidents were fallen from height	Violated the standards of the RSPO under Criterion 6.	Several cases of accidents.
Community Involvement and Development	Assist disadvantaged <i>Bumiputera</i> community in the rural areas and provide equitable access to education	Assist disadvantaged Chinese community (including Chinese and few Indian schools)	Assist <i>Bumiputera</i> community in the tobacco-related industry
Responsibility to the State	Supporting the state's vision of becoming developed nation by 2020.		Combat illegal cigarette.
	No information on tax planning	No information on tax planning	No information on tax planning

Thus, information on social and environmental consequences of corporate activities towards the public at large and environmental wellbeing remained problematic. The question to address is whether voluntary self-regulation would lead to sufficient information to enable a fully informed assessment to be made of the impact of corporate activities on society and environmental wellbeing. As the study aims to understand CSR potentiality from various perspectives, the next chapter presents the stakeholders' viewpoints on CSR.

## CHAPTER SIX

### CORPORATE SOCIAL RESPONSIBILITY – THE VIEWS FROM STAKEHOLDERS

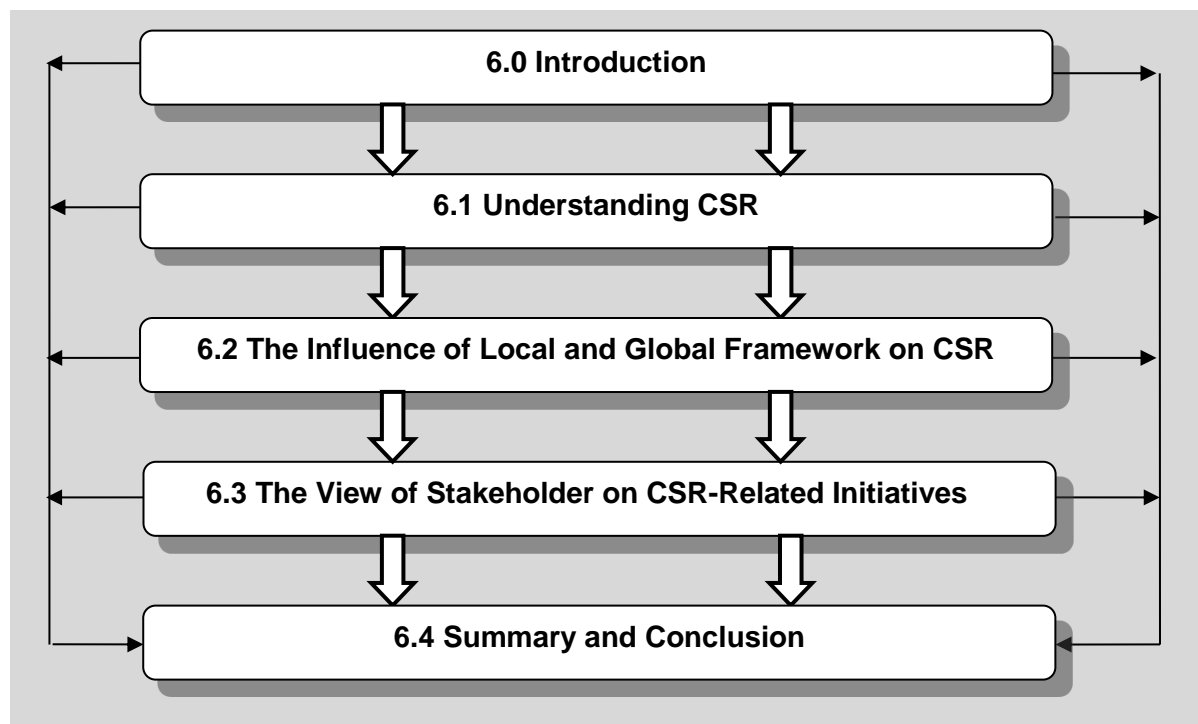
#### 6.0 Introduction

The methodological framework discussed in Chapter 3 suggests the need to examine the structure-agency relationship in order to understand the subjectivity of social actors and dynamic interplay between social actors and structures that may enable or constrain the development of social practices such as CSR. The chapter necessitate the acknowledgment of history, the contradictory role of the state and power relations in society that may shaped CSR actors understanding and production of CSR in Malaysia. Chapter 4 shed some lights on how the historical context and the social institutions have influenced and shaped the development of CSR. The advent and promotion of *Bumiputera* policy saw a highly interventionist developmental state, aiming to promote *Bumiputera* interests. The chapter showed that to a large extent, the development of CSR was shaped by the state's administrative guidelines and policies, attempting to achieve a balance between economic development and social goals. Nevertheless, the conflicts and contradictions in the efforts of managing competing pressures would perhaps impede the development of CSR due to the present institutional constraints.

Chapter 5 presented three case samples in order to understand on how corporate actors describe, explain or account for social and environmental issues. The examination of corporate reports and documents showed that corporations increasingly pledged their CSR commitment by endorsing codes of conduct and social and environmental policies. The chapter also revealed that *Bumiputera* policy has inter-relatedly influence the way corporate actors understand and transform CSR within the course of organisational life and in line with the development strategy and the interests of the state.

In order to gain insights on how CSR is being understood and informed by other social actors in Malaysia, semi-structured interviews were conducted. This is because stakeholders are concerned with a wide range of social and environmental issues and may understand CSR differently based on the nature of their organisational activities. The remainder of the chapter is organised as follows (see figure 6.1 below): section **6.1** examines how CSR is being understood and informed by different stakeholders in the context of Malaysia. The analysis would provide insights on how CSR is understood within broader institutional environment. Section **6.2** focuses on understanding how meaning might be socially constructed in relation to: (1) *environment*; (2) *employee welfare and management*; (3) *community involvement and development*; and (4) *responsibility to the state*. Section **6.3** looks into the influence of both institutional framework and globalisation on social mechanisms, including stakeholders' understanding and production of CSR in Malaysia. Section **6.4** provides a summary and conclusion of the chapter.

**Figure 6.1: Structure of Chapter 6**



## **6.1 Understanding CSR**

Although it is still contested whether corporations have social responsibilities beyond their profit-making function (Friedman, 1970), the heightened scrutiny from the civil society groups and NGOs put pressures on corporations to fulfil broader social goals (Davies, 2003; Freeman *et al.*, 2001; Logsdon and Wood, 2002). However, since corporations are embedded in different national systems, the pressures to engage in social responsibility initiatives might be different (Logsdon and Wood, 2002; Matten and Crane, 2005; Windsor, 2004). The discussion in previous chapters shed some lights on how CSR is socially constructed, produced, negotiated and contested in a Malaysia context; and shaped by various social interactions at both local and global context.

In a context of public anxiety, where gaps between corporate talk and action may produce mistrust among stakeholders, this study argues for the need to open up possibilities of understanding CSR at the societal level. It aims to gain insights of opportunities and limitations of understanding CSR-related actions from various stakeholders' viewpoints in the context of Malaysia. However, those interviews did not mean to be conclusive but rather to shed some light on how CSR is socially constructed and contested in Malaysia.

### **6.1.1 Ambiguity in Defining CSR**

Various concepts and definitions have been proposed to describe the responsible role of corporations in a modern society, encompassing an ever-widening range of issues (see Crane, 2000; Newell, 2005; Sikka, 2008, 2010). Factors contributing to this trend included highly publicised corporate collapse and financial scandals of major corporations in the West and the socio-economic and environmental crises which have raised further questions about the regulatory mechanisms, the complexity of

relationships between markets, states and civil society and the impacts of corporate global operations.

However, critics argued that CSR is a complex concept and hence, providing a mutual definition of CSR is somewhat elusive and problematic (Capron and Gray, 2000; Moon, 2004; Porritt, 2005). This in fact, was acknowledged by NGO1;

*“It is very **difficult** if we come out with a **single definition**... For instance, if I am the **board of director**, I might view **CSR as a risk management** because what I am trying to do is **minimise the social and environmental impacts** of my business operation. However, if I am looking from the **NGOs** perspectives, then my definition of CSR would depend on **the nature of the NGO** itself. For instance, if I am looking at the context of NGO that deals with human rights, then clearly my definition of CSR would be biased on ensuring general equity and safeguarding the rights of human beings. In contrast, if I am the regulator, then my perspective is based on compliance with laws. Hence, the **definition of CSR becomes a quite complex issue** because it much **depends on the perspective of stakeholders**.”*

Additionally, a number of stakeholders (GRA1, SBO1 and NGO3) discussed CSR from the perspective of international conventions and standards (such as the United Nation Global Compact and ISO – International Organisation for Standardisation. They claimed that those standards are fundamental in developing responsible practices. According to GRA1;

*“The ISO 26000: Social Responsibility provides **guidance on how businesses and organisations can operate in a socially responsible way**. The standard looked at the holistic approach to CSR and addressed seven areas of concern: (1) **organisational governance**; (2) **human rights**; (3) **labour practices**; (4) **fair environment**; (5) **fair operating practices**; (6) **consumer issues**; and (7) **community involvement and development**. However, in the context of Malaysia, the focused is on the community, the market, the workplace and the environment.*

As exemplified in Table 6.1, CSR may mean different things to different organisation. For instance, the trade union representative clearly mentioned about improving employee welfare including minimum salary, safety and health workplace, right of employees to be involved in unionisation and terms and conditions for employment. Nevertheless, it can be observed that CSR is about corporate social obligation in many areas like human rights, environmental protection, product quality, safety and labour welfare. CSR in these

different senses may become a catalyst of stakeholder responses to the social and environmental issues in Malaysia. Perhaps, CSR has potentiality to articulate responsible business practices and this in fact, was highlighted by NGO2, “*CSR as a developmental tool will contribute in positive ways towards sustainable development.*”

**Table 6.1: Stakeholder Understanding of CSR**

Stakeholder	Nature of the Organisation	Definition of CSR
CSO1	Trade Union	CSR is obligations to practice <b>beyond what is required by laws</b> and integrate all the conventions that have been ratified by Malaysia into business affairs. We would like to have <b>more standards for labour</b> in place.
NGO3	Consumer Association	Taking into account the social and environmental impacts of business operations in respect of <b>human rights, labour practices, the environment, the consumers, community involvement and development, organisational governance and fair operating practices.</b>
GRA1	Regulator	CSR is not only about complying with the laws but <b>what is beyond the laws.</b> The law only specified the minimum requirements.
GRA3	Regulator	CSR encompasses four dimensions: <b>community, marketplace, workplace and environment</b> which need to be integrated into the corporate cultures and business decision-making.
SA1	State Agency	CSR is about <b>preserving the rights of human being:</b> the rights of communities to live in a clean and safe environment, the rights to clean water and security, non-discrimination against gender and ethnicity, decent wages and etcetera.

To further substantiate this view, the stakeholders were asked about the implementation of CSR-related initiatives that may contribute to societal development in Malaysia. Instead, NGO3 argued that many corporations were unconscious about the social and environmental impact of their activities towards the public at large. This perhaps, due to the lack of understanding of what CSR possibly means, as argued by NGO2;



*“The companies themselves **do not understand what socially responsible practices constituted**. So, they are embracing on CSR without appreciating the true value and thereby, **CSR becomes not more than public relation exercises.**”*

The stakeholders interviewed argued that not only awareness about the impact of business activities towards the public at large and the environmental wellbeing is minimal but the public awareness about CSR is modest. This partly explains why the social movement which demands social and environmental justice and corporate reform is almost non-visible in Malaysia. According to these stakeholders, although there are cases about environmental degradation, unsafe products or violations of human rights which make headlines in the news, there are limited actions both from the public and the state which demand corporations to uphold public accountability and social responsibility in their business activities.

This study identified two main misconception of CSR: philanthropy and volunteering; and compliance with laws.

### **Misconception of CSR: Philanthropy and Volunteering**

It should be mentioned that a number of scholars claimed that CSR in developing countries is shaped by cultural traditions of philanthropy, business ethics and community embeddedness (Amaeshi *et al.*, 2006). Shaping by a business case of “doing good”, CSR has often conceptualised as an obligation of corporations to make additional contributions to the wellbeing of society (see Carroll and Shabana, 2010; Kotler and Lee, 2005). In line with this view, it can be observed that CSR-related activities by three sample cases examined in Chapter 5 were mostly focused on corporate giving, foundations, sponsorships and volunteering. The interview of SA1 reaffirmed this notion;

*“Even though companies are increasingly demonstrated their CSR commitment but the initiatives mostly focused on **philanthropic giving and community/nation buildings in areas of education, donations** and... that kind of things. However, CSR is more than that...”*

In addition, it was evident in Chapter 5 that construction of CSR was often linked to the voluntarily engagement of employee in collaborative action and inspiring them to contribute to the society together. NGO1 further exemplified by saying that;

*“It is quite common here that people often misunderstood what CSR may possibly mean. For instance, some companies **asked their employees to contribute something like old clothes, money and time to charitable activities and events organised by the company itself or outside body. But the issue is that the company is mobilising (or using) its own employees to run charitable activities and later claimed that **such activities formed part of its CSR-related initiatives.**”***

This CSR-related initiative can be observed in Western countries too, in which a great emphasis are focused on giving resources to the community through philanthropic programs and volunteerism (Baughn *et al.*, 2007; Matten and Moon, 2008; Maignan and Ralston, 2002). However, the danger of focusing on charitable giving can lead to shortcomings in the fulfilment of other duties, in terms of environmental protection, enforcement of labour rights and human rights, and anti-corruption. But, it does not mean that philanthropy and charitable giving are unimportant. In this context, the conception of CSR is tended to be focused on philanthropy-as-CSR.

### **Misconception of CSR: Compliance with Laws**

What is the relation of CSR with law? There is a common understanding of CSR as ‘beyond compliance’ with law (see Commission, 2001).<sup>224</sup> Mares (2010: 226) contends that legal compliance only provides minimum requirements, while CSR represents voluntary attempts towards sustainable development and social inclusion, to innovate and improve performance above the law. Although CSR is associated with actions beyond legal requirements, some legislative initiatives are referred as CSR legislation by various actors (Buhmann, 2006), further complicating the role of CSR in promoting development. Addressing this concern, NGO2 claimed that;

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<sup>224</sup> This definition is proposed by the EU Commission’s 2001 Green Paper on CSR. Having stated this definition, it does not otherwise imply that this study adopted this view. Some understandings of CSR are discussed in Chapter 2.

*“Sometimes, even large companies are **confused between legal compliance and CSR**. For instance, I had seen presentations by some companies about their CSR initiatives and they claimed to **meet the Occupational Safety and Health laws...** there is confusion amongst the companies whether legal compliance is part of CSR. So, I would say that there is **a very fundamental problem of not understanding the basic issue that underline CSR**.”*

GRA3 argued that although rules and regulations provide guidelines to help corporations develop meaningful CSR agendas, the articulation of CSR policies and initiatives will be based on corporations own realities. She argued;

*“For instance, the Bursa Malaysia’s CSR framework supports the Triple Bottom Line reporting which emphasises the economic, social and environmental wellbeing. The framework incorporates criteria drawn from Malaysia’s national policies. But the **framework provides guidance and is not intended to be prescriptive**. Every **company is expected to conduct its own self-examination and identify** with its individual areas of relevance within the CSR framework drawn up by Bursa Malaysia.”*

Nevertheless, the production of CSR as ‘beyond compliance’ remains to be seen, particularly in the specific situation of Malaysian developmental model which is predicated on *Bumiputera* and neoliberal hegemony. This is discussed further in Section 6.3.

#### **6.1.1.1 Discussion**

The debates on CSR have emphasised on the social role of modern corporations (Albareda *et al.*, 2007), in which corporations are expected to assume responsibilities that once were regarded as the state duties to provide social services and infrastructures. However, the inherent feature of capitalism – the pursuit of profit, inherently impoverished CSR since corporations only engage in CSR initiatives which they anticipate will provide economic returns. The pursuit of profit often place corporate managers in conflict with social and environmental goals.

*'The problem isn't simply that companies aren't practising CSR very well, it's that the corporate structure is not capable of social responsibility.'*

*(Ethical Consumer, 2007)<sup>225</sup>*

The statement highlights the possible incompatibility between CSR and the way corporations are structured. Hence, the pressing issue to address is: *do corporations have a responsible role in society?* This concern was highlighted by NGO1;

*"... does a company has a role in performing social activities or should this be something that is done by the government? The capitalist perspective argues that **the role of the company is to make profit** and thus, it is **concerned with the bottom line**... In a broader sense, **companies interact with society**... I think the company understand this common issue and the fact that they are living upon society."*

Critics argue that as a member of society, corporations have to take into account the common good and to improve societal welfare (Kok *et al.*, 2001). According to a legitimacy theory, corporations exist in a society under social contract, within which, corporations maintain congruent between business activities with broader social norms, values, and expectations (Dowling and Pfeffer, 1975). However, if CSR is encapsulated within legitimacy approach, there is no additional obligation for corporations to pursue social goals beyond the simple compliance with laws and norms of the society. This assumption becomes problematic due to the economies of scale and massive expansion of corporate global activities. Hence, the debates on CSR are no longer about businesses and society relationships but have become a way of rethinking about the social role of modern corporations (Albareda *et al.*, 2007).

The stakeholders interviewed believed that corporations have social obligations despite their focus on profit maximisation. GRA1 argued that;

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<sup>225</sup> Ethical Consumer

<http://www.ethicalconsumer.org/commentanalysis/factsvgreenwash/corporatesocialresponsibility.aspx>

*“Corporations should **integrate social and environmental concerns** in their business dealings and **balance the consideration for profit and social obligations**. The company should respect every right of human being because it is a fundamental issue that every person has the rights to be treated fairly.”*

Nevertheless, anchored within the neoliberal hegemony, the business case for CSR often provides justification for corporate involvement in CSR-related initiatives. This in fact, was acknowledged by NGO3;

*“If the companies contributed something to society, they anticipated that they will **get something back in return**. So, it is about ‘**doing well by doing good**.’ For instance, a company offered a scholarship and it was advertised in the news. The company proudly called it as CSR but, it never tells the public that the scholarship was tied to certain conditions. It is a way of getting future employee to come back and work for the company.”*

Since the social benign of the corporation is to produce and distribute wealth, *does CSR capitalism possible?* The challenge is to tip the balance between wealth creation and societal development and yet, the potential changes resulting from corporate-led practices in a contemporary capitalism remain to be seen.

### **6.1.2 CSR as a Public-Relation Exercise?**

To some scholars, the development of CSR resulted from the *“failings of liberal economic democracy”* (Gray *et al.*, 1996: 27) which aimed to bring substantive change in a ‘business-as-usual’ (Banerjee, 2007). CSR is proposed as a new way of doing business, but critics argue that the manner CSR is developed as a management tool has resulted in a public relations smokescreen or greenwashing (see Zamagni, 2006). There are some prevalent cases which show that CSR might only about business-as-usual (Bakan, 2005; Corporate Watch, 2006). For instance, The Walt-Disney Company for the violations of labour and human rights standards of its suppliers, the Royal Dutch Shell for open gas flaring in the Niger Delta's residential areas and the possibility of social responsibility in the tobacco industry (Lin-Hi and Müller, 2013; Palazzo and Richter, 2005).

This point is further illustrated by the gap between corporate 'talk' and 'action', causing sceptical about the corporate commitment towards CSR. NGO2 argued;

*“If you looked at the companies stated commitment to CSR and their ‘vogue’ slogan, stated policies and initiatives... all that are very impressive. However, if you looked deeper on what they did on CSR, it is about donations... built bus stop at the school, donating school uniforms, donation to orphanage during the festive seasons and so on... No else in the report that we could find information on how companies deal with the social and environmental consequences of their activities or their initiatives on social and economic development or ongoing disputes with the community.”*

The stakeholders interviewed opined that corporate involvement in CSR was due to the need to be seen as 'legitimate' in the eyes of the public. Perhaps, CSR is merely a public-relation exercise, in which GRA1 stated;

*“CSR is about business enhancement. You need to be seen as you are taking care of the community, customers, being responsible to the government, doing something ‘extra’ for the employees and preserving the environment. These corporations have some objective in the mind... to enhance their image and reputation, to be accepted by the community and to be seen as they are doing good work. This is important for their long-term survival and to attract future employees.”*

A number of scholars argue that corporate reporting is used as a rhetorical device to shape and construct social reality; propagating corporate ideology in the social, economic and political arenas (Cooper and Sherer, 1984). Corporation produces CSR reporting as part of its dialogue with a society (Gray *et al.*, 1995); to alleviate public concern and to show that corporations are meeting societal expectations (Deegan *et al.*, 2002). However, the problems remain as CSR is defined by narrow business interests and works to strengthen the influence and power of corporations, rather than meeting the expectations of society (Banerjee, 2008).

It was also apparent in the stakeholders' responses about the political lobbying and the development of CSR as a public-relation campaign. NGO3 argued;

*“There are many **proliferations of CSR standards and reporting** like the United Nation Global Compact and Global Reporting Initiatives but the consumer organisations around the world are concerned with this **public relation exercises**. This is because of the prevalence of some cases where the **companies provide funds for NGOs to lobby** for something for corporate advantage. The government also provides funds for some NGOs to promote government policies or to put political pressures to the opposition party.”*

For this reason, the stakeholders interviewed emphasised the importance of having independent reporting and verification of CSR practices, drawing further attention upon what corporations ‘do’ than what they ‘talk’. They argued that without some form of regulation and control, CSR reporting would remain hopeless and become merely a marketing strategy.

## **6.2 The Influence of Local and Global Framework on CSR**

The methodological framework adopted in this study indicated that both external forces and domestic structures have considerable influence on the development of institutional structures for promoting CSR. The interplay between the role of the state, the intense pressure of globalisation that empowered capital and societal relations might impede (or advance) the development of CSR.

### **6.2.1 The Local Context**

From the perspectives of capitalist crisis and Gramscian concept of hegemony, the discussion so far has shed some lights on ways in which developmental state and *Bumiputera* hegemony can function to disguise social realities and to legitimise capital and social relation. The exploitation which occurs on the level of production, for instance cheap labour and lax regulations, is masked by socio-economic agendas which aimed to benefits all. However, as discussed in Chapter 4, the capitalist accumulation has resulted in systemic imbalances in the distribution of power, influence and skewed patterns of

income distribution; inequalities inherent in capitalism which the state seeks to mask through promoting CSR agendas.

Gramsci's concept of hegemony provides understanding the ways in which social elites in a capitalist society to constantly re-legitimise themselves to maintain political power. This dominant social group create a common sense notion that the authoritarian developmental model and improving *Bumiputera* interest is important to the maintenance of social cohesion and harmony. The development of *Bumiputera* hegemony, which is socially institutionalised within the power-knowledge relations and predatory state power, has later shaped the conceptions and production of CSR in Malaysia.

### **The Socio-Economic Priorities**

A number of scholars observed that the development of CSR in developing countries is shaped by the socio-economic and political reform process, which often provides guidelines towards integrating social issues into corporate activities (see Visser, 2005). This include improving corporate governance mechanisms (Roussou *et al.*, 2002), collective business action for social betterment (Fourie and Eloff, 2005), economic empowerment and business ethics (Malan, 2005). For instance, Amaeshi *et al.* (2006) found that CSR in Nigeria is designed to address socio-economic issues including poverty alleviation, health-care provision, infrastructure development and education.

As observed in Chapter 5, most of the CSR-related initiatives were shaped by *Bumiputera* policy, which mostly aligned to support the state's aspirations and developmental agendas. Similar insights can be observed when GRA4 argued;

*“CSR initiatives aimed to ease the burden of underprivileged community like poverty alleviation. We can see CSR activities are much focused on donations to the orphanage, helping poor families and underprivileged communities, donations to disaster reliefs to help flood victims and helping victims involved in natural disasters.”*



The socio-economic and political environment of Malaysia, predicated upon race based social orders has shaped the development of institutional structures for promoting CSR. In this context, NGO2 argued that CSR engagement is politically-driven and focused on supporting the state commitment in alleviating poverty and providing basic services to the underprivileged communities.

### **The Institutional Constraints**

The stakeholders interviewed highlighted the conflicting role of the state in managing the socio-economic and political life of Malaysian people. It was apparent in the stakeholders' responses about the implementation of the national policy which is socially and politically disruptive. For instance, CSO1 mentioned about the Convention 111: Discrimination in Respects of Employment and Occupation, which is not ratified by the state;

*“The government won't ratify this convention because it is directly **in conflict with the issue of 'Ketuanan Melayu' (Bumiputera's rights)**. The politicians are saying this... because they **want to gain support from the people.**”*

To illustrate his argument further, CSO1 mentioned about another two conventions which are not ratified by the state;

*“Malaysia did not ratify the **Convention 105: Abolition of Forced Labour**. Why? This is because **force labour is widely used in the industrial and construction sectors and also involved prisoners in the prison.**”*

***Convention 87: Freedom of Association and Protection of the Right to Organize Convention** on the other hand, is very fundamental. The convention calls for the freedom of association and peaceful assembly but indeed, the government introduces several **measures to curb civil liberties of assembly and communication**. This has **weakened the power of the NGOs considerably.**”*

It can be inferred that the country's regulatory framework is influenced by its dependent upon foreign investment, expertise and market access for its socio-economic development. However, this often forced the state to provide an environment conducive for business. NGO2 argued;

*“It is important to understand the economic transformation underwent by the country, from the agriculture to industrialise country. Underneath all that, a lot of **things need to be sacrificed** and I could tell you that many government agencies particularly the **enforcement agencies**; they just **close their eyes when it came to the compliance of laws and regulations**. It is a **political doings...**”*

The stakeholders argued that whilst the business friendly policies have weakened the enforcement agencies, it provides advantages to corporations to externalise their social and environmental costs. The capitalist system of social relation and production has treated labour and other resources as a disposable means of production, in which the aim is to maximise profit. This has created a regulatory vacuum (governance gap), particularly in respect of the governance of business operation.

Moreover, the dependency on domestic and foreign investment to stimulate socio-economic growth affects the ability of the state to enforce necessary institutional structures for promoting CSR. It was apparent in the CSO1 response that the present level of enforcement was hampered the development of responsible practices;

*“The enforcement agencies visited and inspected certain organisation regularly; especially during festive seasons like hotel... at least 3 or 4 times a year because they got nice ‘makan-makan’ (eating nice food). But, certain **high risk industry** like construction is **not that often**. We have seen and heard in the news of several accidents at the construction sites or explosion in the factories that not only involves the workers but also the public. That is the problem... **the lack of enforcement** and it is going back to whether the government is genuinely addressing socially responsible practices.”*

Nevertheless, it has been argued that although the state is willing to enforce laws to promote public accountability and social responsibility, it often lacks the institutional capacity to implement and enforce those laws and regulations. NGO2 argued;

*“When the social and environmental problems start occurring and could no longer be hidden... **the raw water begins contaminated, the air is polluted and so on...** then the **government initiated policies and enacting laws...** but the process goes round and round. The concerned is not about laws but the **effective legal regime and the absence of effective monitoring** of compliance with that legal regime.”*

A possible explanation was due to a close public-private partnership, in which stakeholders argued has paved the way for corruption and irresponsible practices. NGO3 stated;

*“I think the organisational governance and accountability practices are very important in our Malaysian scenario because some of large companies including **GLCs have mismanaged funds...** This raises a **huge concern on the accountability, social responsibility and governance towards multiple stakeholders** because these GLCs are supposedly to run for the benefits of the public at large. Some of these **GLCs lose a billion instead of being a monopoly** and the public are forced to pay the high cost for the products and services. But the quality of services or products that we get is poor.”*

The cause for concern highlighted by a number of stakeholders was the lack of public disclosures, which has paved the way for corruption and subsequently, undermine the development of responsible practices. The problem was critical when it involved GLCs and GLICs, as the state is both the arbiter and regulator which might contribute to the conflict of interests. For instance, the Washington-based financial watchdog revealed that the country’s institutional framework is vulnerable for manipulation and this was evident with the prevalence of illicit capital flows (Global Financial Integrity, 2013). The report claimed that illicit capital outflows<sup>226</sup> from Malaysia in 2010 was the highest in 10 years (US Dollar 64,511 million) and the country was ranked at 4<sup>th</sup> place after China, Russia and Mexico. This report sparked a concern about the accountability issues, lack of governance and irresponsible practices of both public and private sectors. In addition, a number of reports had allegedly claimed that politicians and several GLCs are involved in illicit capital outflows.<sup>227</sup> Capital flight is not only an economic issue<sup>228</sup> (because

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<sup>226</sup> Global Financial Integrity defines “illicit financial flows as the cross-border transfers of funds that are illegally earned, transferred, or utilized. These kinds of illegal transactions range from corrupt public officials transferring kickbacks offshore, to tax evasion by commercial entities, to the laundered proceeds of transnational crime.”

<http://iff.gfintegrity.org/iff2013/explanation2013.html> (assessed in December, 2013).

<sup>227</sup> Possible cases of capital flight as highlighted in the MalaysiaKini (January, 2011). <http://www.malaysiakini.com/news/118487>

<http://www.malaysiakini.com/news/153932> (assessed in November, 2012).

<http://www.asiasentinel.com/econ-business/malaysia-faces-capital-flight-falling-trade-surplus/> (assessed in December, 2013).

untaxed profits means that the state earns less tax revenues to support public services) but it also shows irresponsible corporate practices.

### **The Role of Civil Society Group and NGOs in Malaysia**

However, when the civil society group and NGOs were asked about their role in articulating demand for CSR and public accountability, they argued that the present regulatory framework limit 'democratic' participation. It was argued that civil liberties of communication and assembly are curbed and thereby, limit the role of civil society groups and NGOs, as well as the media to act as watchdogs against abusive corporate and the state's powers. NGO3 claimed;

*“There is **minimal pressure** from the environmental NGOs. This is because the moment these NGOs speak about the environmental governance and accountability, they would **face problems with the Registrar of Society and even from the government**. I think a lot of NGOs projects are funded by the government. So, there is always a conflict of interest.”*

Hence, the role of civil society groups, NGOs and journalist in promoting responsible corporate practices in a contemporary Malaysian society remains yet to be seen.

### **6.2.2 The Global Context**

Whilst the country's institutional structures shaped the practice of CSR, the stakeholders interviewed argued that globalisation has contributed to a 'gap' as there are no global regulations which governed cross-border activities of corporations. CSO1 opined that;

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<http://www.malaysia-today.net/mtcolumns/special-reports/53464-illegal-capital-flight-handicaps-asian-economies> (assessed in December, 2013).

<http://www.freemalaysiatoday.com/category/opinion/2011/11/22/rm893b-lost-to-capital-flight/> (assessed in December, 2013).

<sup>228</sup> According to GRI (2013:1), illicit flows constitute a major source of domestic resource leakage, which drains foreign exchange, reduces tax collections, restricts foreign investments and worsens poverty in the poorest developing countries.

*“These global companies **seek country’s competitive advantage** because they want to **make a huge profit**. Most governments would allow these corporations to be established and operate in their province to foster economic development ... but the **workers and society are suffering and the environment is deteriorating**. **But these companies are complying with the law of the land**... not to mention about the corruption involving the government officer. **This sort of arrangement is challenging in order to develop socially responsible practices**. Even there are ‘soft law’ like the ILO Standards and the ISO Standards, these standards only served as voluntary approaches to CSR.”*

In addition, NGO3 argued about the occurrence of double standards in terms of the implementation of CSR-related initiatives;

*“These international companies practice differently as compared to their CSR initiatives in the home country... but it depends in which country they are coming from. Most of these large companies only **comply with a minimum level of regulations**. They are just **concerned with the bottom line**.”*

Similar phenomenon could be observed in Malaysia as argued by NGO3;

*“Some of our **home-grown companies** have a global operation in least developed countries. There have been **issues about the accountability and social responsibility** of those companies on the community development. There is issue about **corruption to the government officer** particularly in the extraction industry like oil and minerals.”*

This claimed can be substantiated with the CSO1’s argument;

*“We have **received a number of complaints against Malaysian companies** especially those that are operated in timber and logging, hospitality, gambling and plantation sectors. We got this information from our international correspondent but I couldn’t mention the companies because they will sue us for millions.”*

Scholars argue that the fundamental rules of global capitalism are private ownership and competition (Cox, 2004). In order for capitalism to survive, capitalists extend their operations globally to increase its rate of profit; by conquering markets, eliminating competition and securing cheap sources of raw materials and other factors of production (Bakan, 2005; Detomasi, 2008; Sikka, 2008). For this reason, critics argue that the global development of CSR is indeed, illusory (Bakan, 2005: 28);

*“Corporate social responsibility is their new creed, a self-conscious corrective to earlier greed-inspired visions of the corporation. Despite this shift, the corporation itself has not changed. It remains, as it was at the time of its origins as a modern business institution in the middle of the nineteenth century, a legally designated “person” designed to valorize self-interest and invalidate moral concern.”*

The neoliberal hegemony which accompanied global capitalism has constrained the development of socially responsible practices.

### **6.3 The View of Stakeholder on CSR-Related Initiatives**

CSR remains problematic as the underlying purpose of a modern corporation remains unchallenged – the pursuit of profit. The challenge therefore, is to explore the opportunities and limitations of CSR in a specific national context. In this section, the analysis focuses on understanding how meaning might be socially constructed in relation to: (1) *environment*; (2) *employee welfare and management*; (3) *community involvement and development*; and (4) *responsibility to the state*.

#### **6.3.1 Environmental Protection and Management**

Corporations have been the primary vehicles of capitalism, rivalling in its importance but the economies of scale and mass production capacity adopted by corporations are alleged as contributing to externalities on society and the environment (Stiglitz, 2008; Visser, 2010). The stakeholders interviewed also raised similar concerns about the environmental impact of corporate activities. They argued that if business continues as usual and disregards the environmental wellbeing, the ecosystem is likely to collapse and threaten the means of livelihood. As a matter of concern, NGO1 opined;

*“Companies should **recognise the impacts of corporate activities on the environment** and address the issue of climate change, reducing gas emission and becoming carbon neutral.”*

### **Environmental Issues in Malaysia**

The stakeholders noted that since 2006, corporations started to produce glossy green reporting, as an indication of their commitment to the environment. They argued that corporate engagement in CSR-related initiatives mostly driven by the state through various policies. It was also apparent in Chapter 5 that corporations gradually included the environment-related information in the corporate reporting, following the state's commitment towards environmental wellbeing in 2006.

However, NGO2 claimed that corporations often overlooked the environmental impacts of their business activities to the public and thus, the environmental-related initiatives were minimal;

*And what the companies are doing? They **claimed to create environmental awareness by taking this school kids to the jungle** and teach them about appreciating the flora and fauna... and claimed that it was **part of their CSR initiatives**... I am not saying that it is not good **but beyond that**...*

GRA3 argued that the cause for concern was about managing and minimising the environmental impacts of business operations but instead;

*... what they did was **organising environmental awareness amongst school children, donating to the environmental NGOs, cleaning the beaches and etcetera**...*

According to GRA3, the lack of awareness, mentality and attitude of the public, including corporate managers on the environmental issues has contributed to the low-level of engagement;

*"I would say that it's not only limited to the environmental initiatives but also other CSR related activities. If I am not mistaken, when 'Pak Lah' (former Prime Minister) initiated environmental initiatives, he planted a tree as a symbol of environmental protection and engagement. Amazingly after that, you could see companies and other organizations start to plant trees and claimed that it was part of their CSR activities. However, there was **no continuity** of such initiatives. So, I would say that **it is a top-down approach that triggers environmental initiatives**."*

Besides, the stakeholders acknowledged about the statutory requirements for the Environmental Impact Assessment (EIA) which is a key aspect of the country's regulation. Whilst the EIA provides opportunities for various parties to challenge proposals initiated or endorsed by the state agencies, the stakeholders raised a concern about the loopholes in the EIA regulation. NGO3 noted about the conflict and credibility of the EIA report;

*“The EIA consultant is appointed and paid by the company and there is already a **conflict of interest**. In theory, the assessment should include the representative from the community, the government and NGOs but unfortunately it is **not in the practice at the moment**. Sometimes the project already **started before the EIA is completed**. When the report is completed, it is handed to the company first... before it is handed to the Environmental Department. But **without the presence of any other stakeholders, who is going to assess the validity of the report and monitor the implementation of the recommendations as suggested in the EIA report?**”*

In the event that the new project attracts public attention, the Department of Environment (DOE) will publicly announce the project and the public are invited to make an assessment and review the project in the DOE library. However, NGO3 claimed;

*“... you have to write down your details and pay a certain amount of money but you cannot take the report out... But at the end of the day, the project still **goes ahead even though the EIA was rejected**. It demonstrated that it was the EIA that was being rejected but not the project itself. The problems are even **worst in Sabah and Sarawak because they have different sets of regulations... and their laws and regulations are inadequate, weak enforcement machineries and prevalent cases of corruptions of government officers and politician.**”*

Although literature indicated that the awareness of environmental issues was increasing in Malaysia (see Bakhtiar *et al.*, 2009; Jaffar *et al.*, 2002; Yusoff and Lehman, 2009), CSO1 claimed that there were some cases of environmental violation;

*“There are **chemicals and hazardous substance being dumped into a river and contaminated the water reservoir**. These companies are not considering the impacts of their business activities because what they are concerned about is making profit.”*



### **Challenges in Promoting Environmental Wellbeing**

According to GRA2, environmental laws and regulations and enforcement machineries are improved over the years in order to keep pace with changes in the global economic environment. However, GRA2 noted;

*“... enforcement agencies should be working very hard and from time to time... to ensure compliance with relevant laws and regulations. This is to ensure that the interest of the public is safeguarded.”*

Nevertheless, the availability of necessary infrastructure to deal with the industrial waste is challenging when it comes to promoting responsible practices. For instance, NGO2 argued;

*“The government encourage industrialisation but did **not provide necessary infrastructure to deal with the industrial wastes**. For instance, the Scheduled Waste Regulation was enacted in 1989 but the Bukit Nenas treatment facility only operated in the 1990’s. But, there is **only one disposal and treatment facility for scheduled wastes that cater for the whole country and it is a total monopoly**... It is very **hard to encourage people to adhere to the environmental laws and regulations if the facility and the cost of compliance are too high**...”*

In this context, NGO2 argued that instilling a culture of responsible behaviour remains problematic;

*“Not only to mention about the high compliance cost... but how about the **risks involved when companies transported hazardous scheduled wastes from the business premises to the disposal and treatment facilities in Bukit Nenas**? Just imagine if your premises located at the northern-part or southern-part of Peninsular Malaysia. How about Sabah and Sarawak?”*

Encapsulated within the profit motive, the cause for concern raised was about the management of waste and high compliance cost. NGO2 argued;

*“How companies managed their waste, whether transported the waste to the treatment facility... or stored it in the business premises... dumped it in the river... or buried the waste behind the premises... or throw the waste in the bin to be collected and dumped in the open landfill. So, it’s back to the issue of common... the **cost of complying with environmental laws and regulations and consideration for profit**.”*

### 6.3.2 Employee Welfare and Management

A number of scholars argue that the firmly entrenched legal and regulatory framework established during the colonial era provides Malaysia a strong base for implementing and administering its labour policies and regulations over the years (see Haggard, 2005; Salleh and Meyanathan, 1993). The Federal Constitution for instance, provides the basic human rights standards for the country. According to SA1;

*“The basic foundation of the Constitution is that **every person should be treated equally** regardless of their races, background and beliefs... and thus serving the **fundamental principles of CSR practices**. The elements mentioned in the Article of the Constitution should be integrated into corporate practices... as such it **covers many issues for instance, non-discrimination towards gender and ethnicity, equal wages, the rights of disabled people to work, the rights to health and safe working environments** and so on.”*

Besides, GRA1 mentioned about the present regulatory framework responsible for promoting safety and health working environment;

*“We have a competent law; the Occupational Safety and Health Act 1994 clearly **defined the responsibility of the employer, the rights of the employees** and also **other person affected by the business activities**, who are the public at large.”*

GRA2 further emphasised the role of DOSH (Department of Occupational Safety and Health), which responsibilities include the setting of standards, enforcement of relevant legislations and carrying out promotional and publicity programmes to ensure safety, health and welfare of the workforce is at the highest level. The role of DOSH was also acknowledged by civil society group – CSO1;

*“The Department of Occupational Safety and Health has developed tremendously and has **established rules and regulations about the safety and health regulations in the workplace and their enforcement is very strong**... We could observe that **the attention to the occupational safety and health at the workplace as presented in the corporate reporting is increasing**.”*

The stakeholders interviewed agreed that CSR-related initiatives may include providing a healthy and safe working environment, reasonable wages, fair terms of employment, non-discrimination and equal opportunity.

### **Labour versus the Pursuit of Profit**

Nevertheless, within the capitalist social relation of production, the conflicts arise between the accumulation of capital and the distribution of surplus value. The regulators acknowledged this conflict and mentioned the challenges they faced in promoting responsible behaviour in the workplace. According to GRA2;

*“Some employers often **overlooked their responsibility** towards employees and only **comply with a minimum level of the laws**. Their aim is to **make a big profit and they would reduce expenditure on wages, training or other protections** for the employees. I might say some employers may **exploit the workers** because some of those people are illiterate and uneducated... how they are going to know if the chemicals they used are hazardous and would bring negative health effect to them, if they could not read. How they are going to know that they need proper attire and tools when they work on the pole or work in the oil and gas industries. **How they are going to follow the procedures if the training is not provided?**”*

#### **a) Exploitation of Workforce**

NGO1 argued that many corporations in Malaysia are moving away from CSR because the industry is being too dependent on cheap unskilled migrant labour in order to remain competitive. NGO1 further substantiated his view as follows;

*“There is a reason why I am saying this... It is because our government **allowed unskilled foreign workers to come and work** in Malaysia but these workers are **treated badly, they have been intimidated and tortured**. In some cases, they are **not paid wages** and there are many other violations if you want to talk about laws. The **Occupational Safety and Health Act or even the government speech on this subject is minimal.**”*

In this context, CSO1 argued;

*“... **less emphasis is given for managing employee welfare and benefits**. Rather, the government is more focusing on environmental aspects and overlooked the socio-economic impacts of business activities on employees.”*

CSO1 further claimed;

*“The foreign workers are paid RM18.20 per day and the most they could get is RM21 per day... after deducting utility, medical benefit and etc... what is left for them is far **below the minimum standard of living**. Some of these foreign workers are **working seven days a week and no leave**. Not to mention about government agencies or certain community/criminal group that asked for ‘duit perlindungan’ (**protection money**) from these foreign workers.”*

To substantiate this claim, this study examined the Auditor General Report of Ministry of Home Affairs. The report documented cases of human rights violations against foreign workers such as cheating of wages, seizing of passport and the use of forced labour (Auditor General Report, 2012: 543). These foreign workers mostly worked in the plantation sectors, construction sites, textile factories and domestic maids.

It was also apparent in the workers' responses that exploitation was not occurred to the foreign workers but also involved domestic labour. EMP3 claimed;

*"I have been told what time I should be at work and what time I go home. The boss mentioned sometimes I need to **stay back for overtime**. But he did **not pay for overtime**."*

Generally, the workers interviewed raised a concern about the salaries and wages which were not only low but also stagnant over the years. They claimed to be struggling to pay for the cost of living which has escalated over the years. To understand this issue, the study looked into several report in the websites about the cost of living, job and wage issues in Malaysia. It was reported that the household debt had increased to 80.5 percent of GDP in 2012 and cases of crime and social problems also increased.<sup>229</sup> The implementation of the minimum wage policy in 2012 perhaps would be able to address social welfare of low-paid workers.

#### **b) Inadequate Training**

The stakeholders generally acknowledged that health and safety procedures and training are inadequate which may result in the failure of employees to comply with the corporate standards of procedures. To substantiate this claim, this study asked a number of workers about their view on the subject matter. Generally, these workers mentioned that

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<sup>229</sup> <http://news.asiaone.com/News/AsiaOne+News/Malaysia/Story/A1Story20130418-416782.html>

they were briefed about the scope of their job and training was generally provided.

However, EMP3 stated;

*“Training is **not formally conducted** but the boss assigned a senior staff to oversee my work.”*

In addition, EMP4 informed;

*“Training is **not provided** because it depends on your **working experience**. Now I realised why some companies put advertisement that they required candidates who have working experiences. The company obviously wants to **reduce its training costs**.”*

Besides, the workers argued that information about their rights was minimal. According to EMP1;

*“... the information about the rights and benefits is **obtained from the union**... provided that the company you work has a strong union.”*

Raising a concern about safety and health issues, GRA1 emphasised on the need to train and educate workers on the nature of their jobs and risks associated with the job. This was due to the new technology and chemical being introduced in the industry and the increased of the occupational risks related to the job.

### c) Educational Awareness

The stakeholders were asked about the awareness amongst labour forces about their rights. CSO1 in the opinion that;

*“There is a **lack of awareness** amongst the workers about their rights, whether local or foreign workers. I do not know whether the government purposely do not want the workers to know their rights... maybe **to curb the power of unions to organise and demand rights that may threaten the country’s industrialisation agendas**... I would say generally about 80 percent of our workforces know there are laws but they do not know about its content.”*

It was also apparent in the workers' responses about their awareness of laws and regulations pertaining to the employment,<sup>230</sup> but their understanding on the subject matter was minimal.

#### **d) Right and Responsibility of Employer**

The stakeholders argued that laws prescribed the responsibility of the employer to ensure a safe working environment and to have preventive and corrective measures in place. GRA1 emphasised;

*“Accidents could happen anywhere... So, we need to identify the risks and the hazards. The **health and safety policies need to be plan, implemented, monitored, reviewed and make changes accordingly... It could not be on ad-hoc basis.**”*

In this context, CSO1 argued;

*“I believe we need to **educate people** first so that they become aware about the risks... and then, perhaps change their attitude to follow the safety and health procedures in the workplace.”*

Besides, GRA2 argued that corporations need to ensure the safety of the personnel in the building by having fire and emergency plan. This is in accordance with the safety rules and regulations provided by the fire brigade. To ensure a safe working environment, GRA2 noted that;

*“The companies should conduct **training and courses such as fire drill exercises and monitor the safety of the building.** Some of these practices are **not required by laws** but it will come as socially responsible practices.”*

#### **Challenges in Promoting Employee Welfare and Management**

Despite campaigns about the occupational safety and health, the stakeholders interviewed acknowledged a 'gap' between written corporate policies, practices and reporting and actual implementation. This was evident from the interview of GRA1;

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<sup>230</sup> The interviewee mentioned about the Employment Act but when they have been asked whether they know or have been informed about other laws that protect their rights as a worker, generally all of them know nothing.

***“Every year we have prosecuted about 150 companies, issued perhaps 300 compounds and thousands of notices. We inspected for about 150,000 workplaces and equipment every year.”***

CSO1 argued that there were many cases about non-compliance and violations of laws.

This was also acknowledged by GRA1;

***“When accidents happened in the workplace, our investigations often revealed that the companies have lack of procedures, improper emergency plan, inadequate safety design and equipment, equipment failure, unsafe working environment... the workplace is hot, noisy and dusty... and human errors. However, I personally believed that we could prevent accidents from occurring if we have proper written policies and procedures, the implementation and monitoring is good but the most important thing is, the policies and procedures must be well communicated to the employees.”***

Besides safety and health working environment, the stakeholders argued that the occupational diseases were not widely debated as there was no demand from the public.

According to them, the workers often ignore the pain because the symptoms may not always be severe or impairing. CSO1 claimed;

***“The workers might feel the effects after 10 years or more or after he retired. But after retiring, when he wants to make a claim from the SOCSO because of the injury that he had, the SOCSO need evidence. You need to testify that the injury you got is a result of the nature of your past job. Then, the SOCSO would pay the compensation... otherwise, no. I would say if we have statistics or publications about the possible occupational diseases, publics can make an informed decision and demands corporations and the government to uphold CSR practices in the workplace. I think there is a gap between the law and the practice and this is the problem that we have.”***

To substantiate this claim further, a number of workers were interviewed to gain insights about their awareness on the occupational injury or disease which might arise from the nature of their job. However, when they were asked whether they were suffering or had suffered from the occupational injury or disease, none of them seemed to be aware of. For instance, EMP1 was unsure about the health effect of the heavy lifting but mentioned;

***“I always have back pain. When I went to the company panel clinics or other private clinics, the doctor will ask where I work? What the nature of my job? The doctor will prescribe the medicine, give leave when he felt necessary and that’s all.”***

Besides, EMP2 was unaware that staring at a computer screen for hours could put a real strain on his eyes;<sup>231</sup>

*“My eyes hurt and I went to this clinic. The doctor asked me how long I use the computer every day. But staring at a computer monitor for hours is part of my job.”*

Despite ‘glossy’ reports on human resources management, there are gaps between corporate ‘talk’ and ‘action’. There were several issues involving employee welfare and management which were absent from the corporate annual report. GRA1 claimed;

*“As far as I am concerned, there are some gaps in the corporate reporting. Nowhere in the report in which, I could find information about the **socio-economic impacts of the job... the occupational health and diseases, the health effects towards workers based on the nature of their job** such as exposure to chemicals, long-term noise, possible eyesight problems due to longer exposure to the screen computer, ergonomic problems like back pain, lifting heavy load... This health effect may take 10 or more years before you realise that you are suffering these kinds of problems.”*

In this sense, SA1 opined that the institutional structure constrains the development of CSR. He mentioned about the ‘gap’ in the Federal Constitution which may impede the development of CSR when he explained about gender discrimination in the employment.

He claimed;

*“... based on my personal observation, **discrimination in employment** does occur in Malaysia... **in terms of hiring, job assignment, promotion, termination, compensation and harassment.** For instance, if you looked at the job vacancy advertised in the local newspapers, the company stated that they are looking for candidates who could speak and write in certain languages. To me, it was **discrimination against ethnic.**”*

In addition, CSO1 mentioned about some prevalent cases of discrimination in the employment of disabled people. CSO1 informed that;

*“**Discrimination against a disable person is rare but there are few cases.** The government introduced the ‘back to work program’ through SOCSO to encourage people with permanent disabilities to back to work but I tell you... how many companies are willing to employ these people if they could get foreign workers and pay only RM18 per day. To the companies, the profit is matter the most and not pursuing social obligations or government agendas.”*

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<sup>231</sup> <http://www.webmd.com/eye-health/computer-vision-syndrome> (assessed in November, 2013).



Besides, it was argued that the constitutional law is only applicable if the rights of individual had been contravened by a public authority.<sup>232</sup> If the contravention was made by a private entity, the remedies may be claimed under private law as the constitutional remedy was not available (Chee Din *et al.*, 2011).

### 6.3.3 Community Involvement and Development

The pursuit of profit often brings the corporations into conflict with the community in terms of displacement of indigenous communities in business development, possible health and disease problems from the use of the products, conflicts and struggles over the land and environmental degradation which endanger the nature resources, which the community depends on for its livelihood. In this section, the stakeholders were asked about the role of business in fostering community development, the impact of its activities on societal wellbeing and how the corporations discharged their social responsibility to the public at large.

NGO1 remained sceptical about the corporate policies on community development;

*“Corporate activities often involved **displacement of community especially indigenous people in Sabah and Sarawak**. It is not only involved deterioration of the biological diversity but cultural diversity, social crime like rape and infringement to a way of living. There are cases of **violation of human rights** involving indigenous people by logging companies. Besides, even though companies are required to carry the EIA before begin a project but the report did not function as it is supposed to serve and in the end... the residing community left with no options but have to face the social and environmental consequences of corporate activities.”*

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<sup>232</sup> SA1 mentioned a case involving the national airlines system. He stated, “the case that I could recall was the termination of MAS (the national airlines) stewardess. The collective agreement that governed the terms and conditions of the service at that moment, required a stewardess to resign on becoming pregnant and the company has the rights to terminate her services if she refuses to resign. However, following the incidents, MAS has reviewed its policy.”

It was argued that the interpretation of courts based on the Article 8 of the Federal Constitution at that time, fails to give proper and sufficient protection against gender discrimination particularly from the perspective of employment in the private sector, pregnancy and gender discrimination.

SBO1 further claimed;

*“Indigenous people are often **left aside or neglected in the socio-economic development**... their land have been taken away without any compensation, without any arrangement by the company or the state government. There are conflicts and struggles over the land particularly in Sabah and Sarawak.”*

The cause for concern highlighted by NGO3 was about the community's unconsciousness;

*“It is about community consciousness... but these companies **don't bother about the social and environmental impacts of their activities on community**... for them, it is about the project and profit. People often think that community is not part of the broader framework in which the business takes place... but actually they do. If you looked at a company's annual report or social reporting, all the **disputes involving community relations were not mentioned anywhere in the report.**”*

It can be observed that understanding of CSR among corporations and stakeholders was more towards philanthropy and charitable giving activities. This was prevalent through the information disclosed in the annual reports and social reporting which often highlights the involvement of corporations in community programmes, donation, foundation and sponsoring sport events.

#### **6.3.4 Responsibility to the State**

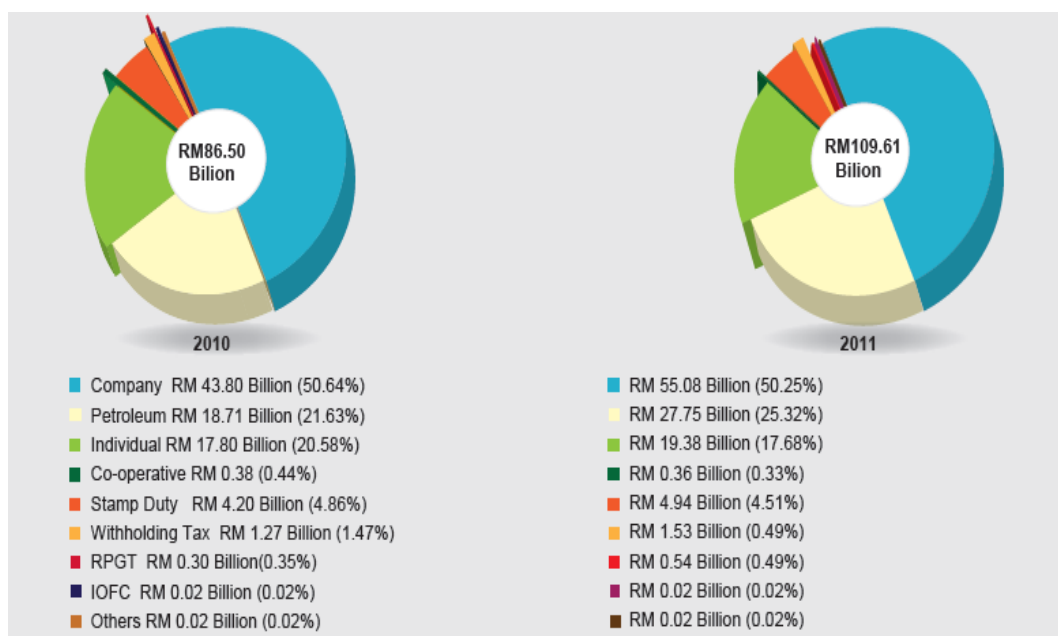
The discussion on the role of corporations in promoting societal development provides some insights about the limited discourse on this issue in the context of Malaysia. The stakeholders interviewed generally agreed on the role of corporations for generating employment and payment of tax but the discussions gave limited insight about the possible link between CSR and development.

#### **CSR and Taxation**

GRA3 opined that the state needs revenues to build social infrastructure and finance public services. Limited revenues would constraint the county's social and economic

development agendas. Figure 6.2 shows that corporate taxation were the largest contributor of tax revenues, followed by petroleum and individual taxation.

**Figure 6.2: Revenues Collection**



Source: Inland Revenue Board's Annual Report (2011: 20)

In terms of payment of taxes, NGO1 argued that a link between CSR and taxation was hardly to be established as payment of taxes was part of the compliance. Arguing that taxation was a very complex issue, NGO2 contended;

*“There are many loopholes in the regulations that could be manipulated to minimise corporate tax obligations. If you want to argue from the ethical responsibility and morality perspectives, then taxation forms part of CSR. But again, it does not mean if I paid taxes, I am socially responsible.”*

The presumed tension between the corporate fundamental objective of maximising shareholder value and its tax obligation to the state draws attention to tax avoidance and CSR construct. Emphasising the morality and ethical dimension of corporate managers, NGO3 argued that there was unclear boundary between tax avoidance and tax evasion since it involved technical issues. NGO1 argued;

*“Tax avoidance is within the law, so I can legally avoid paying taxes and I did not break the law but the question remains about the morality. Tax evasion is totally against the law and it is irresponsible practices. This is a dilemma.”*

Since corporate taxes contributes to the state’s revenues which can be used to finance public services (Freedman, 2003; Sikka, 2010), the cause for concern is related to the incompatibility between societal expectations of corporations and corporate tax strategy (Christensen and Murphy, 2004; Sikka, 2010). According to GRA3, MNCs would use various tax strategies, financial engineering and complex organisational structures to minimise their tax obligation. Figure 6.3 indicated several cases of non-compliance (2011 and 2010) of the Income Tax Act 1967 which may include transfer pricing strategies, tax evasion and dubious tax planning strategies by the corporations. Similar phenomenon can be observed in other countries as corporations are seeking to relocate or to expand in locations that give them tax breaks. For instance, New York Times article exposed on how Apple<sup>233</sup> manages to avoid billions in taxes (Duhigg and Kocieniewski, 2012). By setting up subsidiaries in low-tax places like Ireland, the Netherlands, Luxembourg and the British Virgin Islands, Apple manages to cut its taxes around the world.

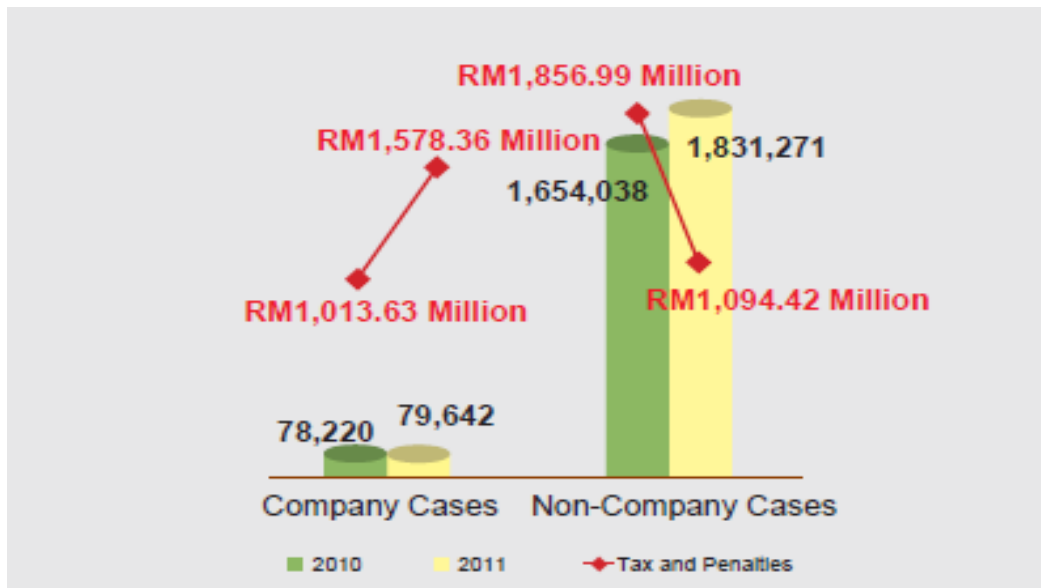
Whilst the stakeholders agreed that foreign investment would foster socio-economic growth, the state policy often subordinated to privilege the power of capital and not the interests of the public at large. GRA3 claimed;

*“There are revisions to the Income Tax Act every year, as directed by the MoF when the national budget is tabled in the parliament. However, the **revisions largely involved mechanisms aimed to attract foreign investment. Many exemptions and incentives** are given such as tax holiday... but except generating employment, these MNCs **pay low or no income taxes** due to the availability of incentives given.”*

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<sup>233</sup> An American multinational technology corporation headquartered in California.

**Figure 6.3: Number of Tax Audit Resolved**



Source: Inland Revenue Board's Annual Report (2011: 21)

Despite generating employment, GRA3 argued that no further benefits offered to the public at large since the goods manufactured or partly manufactured in the country were for export only and not for domestic consumptions. In this sense, GRA3 argued that MNCs only exploited the country's resources to produce goods that meet the lifestyle demand of the western society.

#### **6.4 Summary and Conclusion**

This chapter has presented various stakeholders' viewpoints on CSR in Malaysia. It sought to understand CSR potentiality from a variety of viewpoints in the socio-economic and political environment of Malaysia. The chapter presented evidences from the semi-structured interviews conducted amongst the representatives of civil society groups and non-governmental organisations (NGOs), the employees and various government agencies and bodies including the enforcement agencies and monitoring bodies. It was apparent in the stakeholders' responses about the existence of gap between corporate pledges of CSR-related initiatives and the actual implementation.

The stakeholders generally acknowledged that the complexity in explaining CSR tended to be biased based on the nature of the organisation. For instance, the trade unions would like to have more regulations and standards on labour practices, whilst the consumer organisations emphasised the safety feature of the products and fair trading practices. Besides, some stakeholders interviewed referred to the international standards to define CSR. However, these stakeholders claimed that it was a matter of recognising the social obligations that these corporations have to the public at large, given the impact of their business activities to the society and environmental wellbeing.

The stakeholders opined that the authoritarian administration and the implementation of *Bumiputera* policy have caused impacts to the practise of CSR in Malaysia. This was evident by ethnic preferences in employment, corporate ownership and the state's directive guidelines on CSR which aim to ease the burden of underprivileged community. Hence, it can be observed that CSR-related initiatives mainly focused on philanthropic giving in the areas of education, charitable giving and donations. Nevertheless, the capitalist 'raced-based' arrangement was subject to conflicts and contradictions as it only privileged the interests of a particular elite group in a capitalist society.

Stakeholders interviewed claimed that corporate 'unconsciousness' towards community issues and environmental wellbeing and the pursuit of profit have led corporations to move away from CSR. Despite corporate pledge on human resource development, the stakeholders claimed that health and safety procedures and training are inadequate. This may result in the failure of employees to abide the corporate standards of procedures and thus, may lead to accident and injury. In fact, the awareness among the employees about their rights is minimal and the information on occupational disease is not well circulated. From the interview, it could be observed that a number of employees were unaware about the possibility of occupational injury or disease which might arise from their job.

The discussion on the role of corporations in terms of CSR and development provided some insights about the limited discourse on this issue in the context of Malaysia. The stakeholders highlighted about that the role of corporations in generating employment and payment of taxes but discussions offer limited insight about the possible link between CSR and development. The stakeholders acknowledged mechanisms and strategies used by the corporation in order to minimise their tax burden.

Nevertheless, the stakeholders remain sceptical about the corporate pledges of CSR and raised an issue of a gap between corporate 'talk' and 'action'. It was argued that information about the social and environmental impacts of corporate activities towards the public at large and environmental wellbeing was nowhere to be seen in the corporate reports. For this reason, the stakeholders had the opinion that CSR reporting was merely a public relations exercise, in order to be seen as legitimate in the eyes of the public.

Whilst the socio-economic system is socially and politically disruptive, the interviews indicated that the country's present institutional structures have impeded the development of CSR as it has been subordinated to privilege the power of capital. This was partly explained by the industrialisation strategies which constraint regulatory capacity and institutional structure that impede the development of responsible business practices. Within the capitalist social relation of production, the conflicts and contradictions may arise between the accumulation of capital and the distribution of surplus value.

In addition, the stakeholders acknowledged that the global economic forces had influenced and shaped CSR practices in Malaysia. It was argued that corporate globalisation not only created an international 'governance gap', but also the practice of 'double standards' as these MNCs only acted in accordance with the laws of the land. Hence, the stakeholders raised concern about the business friendly policies and

investment packages which only benefited the corporate bottom-line, but constrained the government regulatory and enforcement machineries to demand socially responsible practices.

It was prevalent in this chapter that *Bumiputera* hegemony and state-led capitalism have shaped dynamics social relation and modes of production which often privileged the power of capital. This has subsequently undermined social and environmental justice as the public policy is allegedly favouring capital accumulation and complied with for social and political reasons. The interplay between corporate globalisation, the role of the state and the intense pressure of global capitalism which empowers the capital might impede the development of CSR and thereby, offer limited insights on the practice of CSR. As such, the role of CSR in promoting socio-economic development remains to be seen in the context of Malaysian raced-based system.



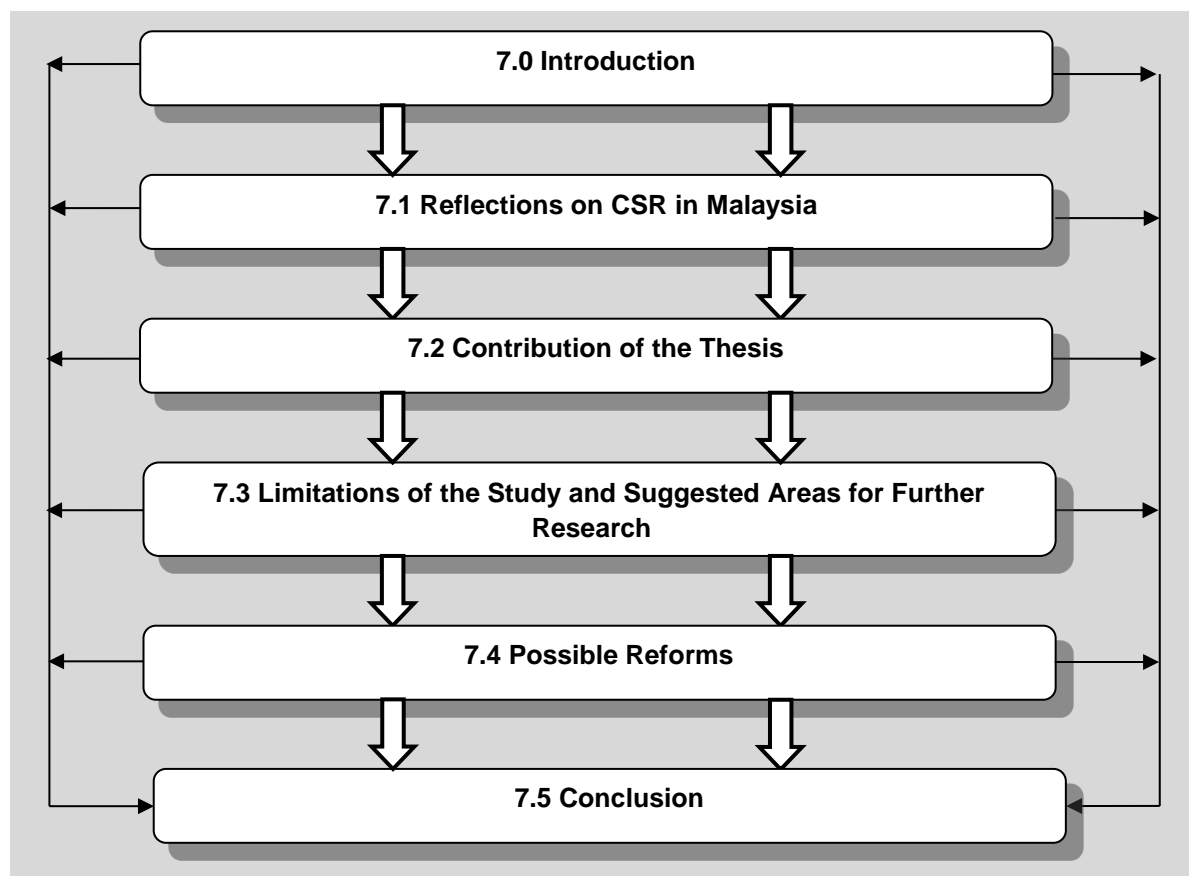
## **CHAPTER SEVEN**

### **SUMMARY AND CONCLUSION**

#### **7.0 Introduction**

The study aims to understand CSR potentiality from a variety of viewpoints in order to shed some light on the production and transformation of CSR in Malaysia. The study demonstrates that CSR in Malaysia is not simply a social phenomenon but intertwined with the dynamics of a wider political and socio-economic context and power relations in society. The development of CSR therefore should be considered in the context of a dynamic and evolving process of domestic norm-setting, bearing in mind the significance of national peculiarity in a contemporary economic globalisation. It also acknowledges the role of the social actors, the systemic pressures and the influence of global and local structures which have simultaneously shaped CSR practices. The complex interplay between agents and structures simultaneously formed the basis of social structures and institutions that facilitated and shaped social practices such as CSR. The remainder of the chapter is organised as shown in Figure 7.1.

Figure 7.1: Structure of Chapter 7



### 7.1 Reflections on CSR in Malaysia

The review of literature showed that the proliferation of CSR mostly concentrates on Western values and generally focused on the role of corporation in fostering economic and social development. However, little attention has been paid to CSR practices in developing countries, such as and including Malaysia. This study addresses the gap in the CSR literature by examining the nature and extent of CSR practices in Malaysia within a socio-economic and political context, in order to understand the nature of CSR practices and their potential for addressing the socio-economic development peculiar to Malaysia.

The review of literature in chapter 2 contributed some understanding on how CSR is informed and understood in the literature. The review offers a richer appreciation of the

history, socio-economic and political environment that constructed and shaped CSR discourse. In a contemporary economic globalisation, an appropriate methodology is needed to problematize the challenge and contradiction, structural inequalities, conflicts and power relations, and the contradictory role of the state which have shaped CSR practices in developing countries (such as Malaysia). It has been argued that developing countries' institutional structures are often devised to increase capital mobility and pressure to attract foreign investment in order to foster social and economic growth. This may influence the development of institutional structures for promoting social responsibility and good governance, and indeed shaped social relations in a capitalist society.

The methodology developed in chapter 3 is being informed by the social constructionist perspective, which views social practices as being (re)produced and shaped by dynamic interplay between social actors and structures. Through the lens of structure-agency framework, the study insinuated the political economy theory, developmental state theory and global capitalism as a theoretical lens to explain the systemic pressure and dynamic interplay between social actors and structures in the (re)construction and transformation of CSR. The political economy is adopted to understand the interrelations between various social protagonists and broader structural forces that are inextricably intertwined within a specific planned system of production that underpins capital as social relation. The consideration of both agency and structure in political economy allows this study to examine the interrelations between economic, politic and history within which the economic and political activity take place. In order to understand the notion of state as a social construct and an aspect of statehood peculiar to Malaysia, this study proposes a developmental state theory to capture some of the prevailing issues surrounding developmental states. The different development trajectory underwent by developmental states could explain the market ideology and strategy, the contradictory role of the state, the role of corporations and the pressure of economic globalisation, which in turn, has

impacted upon the demand for CSR and other modes of governance. It has been argued that the intensification of economic globalisation creates tensions and contradictions as developmental states are under pressure to build hegemony within the terms of a neoliberal model of capitalism. The reliance on capital accumulation constrains the state's ability to promote social responsibility, public accountability and good governance as national policies has become subordinated to privileges the power of capital. It has been argued that the construction of CSR is shaped by structural constraints and power relations and thereby, challenged the state's autonomy to enforce institutional structures that inculcate social responsibility and public accountability.

Chapter 4 examined the history, socio-economic and political environment of Malaysia, highlighting a complex amalgam of racial and economic goals that may promote or constrain the development of institutional structures for advancing CSR in Malaysia. Periodization of Malaysia's historic bloc illuminates the changing character of both modes of socio-economic development and state intervention, in which common sense is mobilised to gain consensus in society and maintaining social order. The *Bumiputera* policy, disguised in terms of national socio-economic policies, is socially institutionalised and considered as 'the best' way to manage social and political life of the complex amalgam of Malaysian society. It can be observed that the institutional structure has been devised to maintain the accumulation of capital, mediating between national interests and global forces, whilst at the same time attempting to establish the basis for its own legitimisation. However, the overriding desire to attract and retain foreign investment has forced the state to provide an environment conducive for business whilst at the same time, manage socio-economic benefits for the public. This has simultaneously affected the ability of the state to establish and enforce necessary institutional structures for promoting CSR and good governance. In contrast, the state has addressed CSR issues as part of socio-economic growth, aimed to manage social disparities which have affected Malaysia ever since, particularly in the areas of poverty

and education. Such focus presumably suggests that the country's national policies are still struggling to address poverty, which has affected underprivileged communities' lives and livelihoods, in terms of the lack of educational opportunities and basic services.

Chapter 5 highlighted that in the context of contemporary global capitalism which underlines profit maximisation and complex institutional structures predicated on *Bumiputera* policy, CSR present considerable challenges for corporations and the state. Whilst the state has outlined various strategies to transform Malaysia into a developed country by 2020, there seems to be a general misunderstanding of what constitutes CSR. It is often presented as though it is the same as donations and hand-outs or 'giving back to the society'. Part of this might be explained by the fact that most of CSR initiatives are driven by the state and designed to assist the disadvantaged community. However, the 'comply and explain' approaches of listing requirements confer considerable powers to corporate managers to define CSR discourse based on their own terms. Consequently, CSR initiatives are framed within the stakeholder management and control and information disclosed to the public remained at the management discretion and tended to be selective. In this context, CSR provided corporate managers with a tool, used to hide the damage that corporations may cause behind a mask of 'corporate social responsibility'.

Chapter 6 presented various stakeholders' viewpoints on CSR in Malaysia. Semi-structured interviews were conducted among the representatives of civil society groups and NGOs, the employees and various government agencies and bodies. The stakeholders generally acknowledged that the complexity in explaining CSR discourse tended to be biased based on the nature of the organisation. However, these stakeholders claimed that it was a matter of recognising social obligations that these corporations have to the public at large, given the impact of their activities to the society and environmental wellbeing. Besides, the stakeholders viewed that the socio-economic

and political environment may constrain the development of institutional structures crucial for promoting CSR and good governance, as it has been devised to facilitate capital growth and the interests of the social elites. The stakeholders interviewed generally agreed that CSR initiatives are mostly driven by the state and mainly focused on philanthropic giving and community/nation buildings in the areas of education, charitable giving and donations to disaster relief funds. In addition, the limited insights on CSR discourse perhaps, could be explained by the lack of understanding of what CSR possibly means and the basic issues which underline CSR discourse. The stakeholders raised concern about the business friendly policies and investment packages which only benefited the corporate bottom-line, but constrained the government regulatory and enforcement machineries to demand responsible practices.

## **7.2 Contribution of the Thesis**

The thesis has contributed to the literature by twofold, namely; empirical and methodological. Empirically, this study contributes to CSR literature by providing evidence on how the development of CSR is influenced by broader institutional environment and other social mechanisms. Whilst previous studies on CSR in Malaysia are mostly based on the functionalist approach and are focused on disclosure, perception and cause-benefit of CSR engagement, this study acknowledged the historical context, social conflicts, power relations and state intervention which considerably shaped the nation-building after independence.

The evidence shows that the *Bumiputera* affirmative policy has influenced the country's governance mechanism, the role of the state in mediating forces operating both at local and global levels, and the impact of globalisation in advancing or undermining the development of CSR in Malaysia. Firstly, the development of *Bumiputera* hegemony is a response to particular historical incidents and political conflicts, which later has been

socially institutionalised within the power-knowledge relations and predatory state power. Secondly, the powerful entrenched systems of patronage, the heavy and growing reliance on foreign investment to stimulate economic growth and the forms of relations between capital, state and society provide evidence on how conflicts are settled and how corporations are owned. Thirdly, evidence shows how various mechanisms have been put in place to support *Bumiputera* policy which capitulates heavily to subsequent development of governance mechanisms (including CSR).

Besides, this study provides evidences on how corporations describe, explain and account for the environmental and social problems. This was done through an analysis of corporate reporting, focusing particularly on how CSR-related initiatives are constructed and presented in the reports. The evidence shows how meaning is socially constructed in relation to four possible perspectives of CSR: (1) environmental responsibility; (2) employee welfare and management; (3) community involvement and development; and (4) responsibilities to the state. Although CSR is framed in the reports in very broad terms, it was apparent that the development of CSR is aligned to support the state's developmental agendas, including the board appointment processes and the state's directives guideline on CSR-related initiatives. Besides, the corporations portray themselves as willing to assume social responsibilities and contribute to societal development. In the texts studied, two perspectives can be observed; (1) framing CSR based on business reasons and profit-making argumentation; and (2) caring for the society and environmental wellbeing which was framed within the stakeholder framework.

In terms of the methodological framework, this study considered insights from various social actors to understand on how CSR is constructed and produced within the broader institutional environment, thereby adding a new dimension to the research in this field.

This study also adds to the body of knowledge in CSR in Malaysia by providing insights as to how *Bumiputera* hegemony and state-led capitalism shaped CSR-related initiatives. It also provides empirical findings on how institutions matter when explaining the development of CSR in the context of developing countries, as in Malaysia.

### **7.3 Limitations of the Study and Suggested Areas for Further Research**

This study is limited by the lack of publicly available data and the lack of access. The problem was trying to get access to the public-listed corporations, government agencies and NGOs, which required some form of contact through which the researcher could be introduced. Most of the cases, the researcher does not have some personal affiliation with a member of the senior executives or middle man and have to rely on making telephone calls to make contact/gain access/secure a meeting. Sometimes, although the interview meeting was confirmed, it needs to be postponed or cancelled for various reasons and excuses. This was a real challenge as the researcher faced time constraint. In addition, the cause for concern in this study was relating to the study itself. Most of the stakeholders did not seem very willing to talk about issues of responsibility and accountability openly, particularly when the issues were related to the present institutional governance mechanisms, although assurance about confidentiality and the promise of anonymity was given.

Besides, the study was limited to the three sample cases of public-listed corporations in Malaysia, mainly due to the resource and time constraints. The sample cases yielded examples on how corporations in Malaysia defined and engaged in CSR-related activities and further managed competing demands that might threaten organisational legitimacy. Thus, the findings cannot be used to generalise CSR practices to other public-listed corporations in Malaysia. However, it is hoped that this study serves as a catalyst for further research on CSR.



Future research could address some of the limitations of this study. First, this research examined only three sample cases for a period of ten years. A larger sample might yield different results and provides deeper understanding of CSR potentialities from a wide range of perspectives. Further research should incorporate understanding of power relations, the role of the state, the intensification of corporate global capitalism, and the domestic institutional setting that continually influenced and shaped CSR practices. For the purposes of understanding the influence of *Bumiputera* and other social mechanisms, ethnography study would provide alternative insights, as this would enable a participant-observation method as well as the ability to interview more people at different levels of analysis. It would be interesting to explore in more detail the dynamics of different levels of discourse.

#### **7.4 Implications and Possible Reforms**

As the national socio-economic policies are often devised to facilitate the accumulation and mobility of capital, the state faces contradictions and complexities as the country's institutional structures need to balance the competing demands of capitalists and societal welfare. The state needs to enforce the institutional structures and governance mechanisms to promote responsible business practices and good governance. A periodic investigation is required to scrutinise the activities of corporations, particularly GLCs and social elites in order to increase public accountability and social responsibility. A possible reform to the Constitution is necessary so that these reports could be published and made available for public inspection. The requirement of public disclosure is hope to inculcate the culture of being responsible and accountable amongst the government officers and corporate managers in discharging their duties towards the public. The implementation of CSR-related initiatives should be followed up by a strong monitoring system, perhaps through a social and environmental audit by internal and external groups.

The present CSR initiatives are designed to assist disadvantaged community, which aimed to support the state's initiatives to alleviate poverty and provide equitable access to education. However, philanthropy offers limited insights to the practice of CSR, as CSR should be more than just charitable giving. This study suggests the need to understand CSR potentialities from a variety of perspectives, so that the formulation of CSR policies could promote economic and social development and better implementation of CSR-related initiatives. In doing so, the state need to analyse the strengths and limitations of the business environment, organisational structures, the scope of policy implementation and triparty partnership (public-private-NGOs) when developing and implementing CSR policy. At the corporate level, although there are indications of 'social responsibility' engagement, the focus is to deepen and broaden modes of engagement from philanthropic to wider responsibility across the whole spectrum of corporations, including domestic and international level. Civil society groups and NGOs should play more active role in articulating demands for responsible corporate behaviour.

This study also suggests the importance of creating CSR awareness and understanding about CSR practices, even at the very young age. Policy makers, regulators and NGOs in the view that the country's educational system needs to be transformed and improved, to instil and inculcate the civic and moral virtues and thus, developed resilient society that could demand for social responsibility and public accountability. Understanding CSR and its potentialities could promote better engagement and eliminate misconceptions that may arise in implementing CSR in the context of Malaysia.

## **7.5 Conclusion**

This chapter summarises the intellectual journey of the study. It briefly outlines some reflections on CSR in Malaysia, the overall contribution of the thesis and possible

reforms, and the limitations of the study and suggests areas for further research. The methodological framework adopted for this study drew attention to the interactions between social actors and structures that simultaneously construct and shape the attitude and behaviour of the actors towards committing to CSR. The framework acknowledged the peculiarity of the historical, social, economic and political environments that are likely to shape the social views about CSR in Malaysia.

In the context of contemporary global capitalism which underlines profit maximisation and complex institutional structures predicated on *Bumiputera* policy, CSR present considerable challenges for both corporations and the state. It was apparent that the development of nation-building saw an odd blend of policies; a highly interventionist developmental state to ensure a smooth implementation of *Bumiputera* affirmative policy and the neoliberal agendas which favours capital accumulation. This has shaped the conceptions of social and political reality of Malaysian society and affected social and environmental outcomes. While the present institutional structures and regulatory framework have become subordinated to sustain capital accumulation at both domestic and global levels, the effectiveness of the institutional structures in promoting and accelerating demands for responsible corporate behaviour remains problematic.

Corporate social responsibility (CSR) is a social practice, embedded in a particular socio-economic and political environment that is (re)produced and shaped by dynamic interplay between social actors and structures. The study documented increased corporate commitment of being socially responsible and pledges made to support the state's socio-economic agendas. However, the analysis of several reports and documents showed gaps in the knowledge of CSR and how it can be 'operationalised' in the best interest of the public at large. The limited insights on CSR discourse perhaps, can be explained by the lack of understanding of what CSR possibly means and the basic issues which underline CSR discourse. This was partly explained by the limited

demand for responsible practices, which subsequently contributed to the low level of engagement in the CSR-related initiatives.

The review of documented evidence also indicated the gap between corporate pledges of CSR and what actually happened in practices. The examination of corporate reports and documents indicates that information disclosed to the public remained at the management discretion and tended to be selective. Despite the glossy and green reporting, information on social and environmental consequences of corporate activities towards the public at large and environmental wellbeing remained problematic. It can be observed that the powerful social elite set the agenda for maintaining social cohesion, mobilising *Bumiputera* hegemony in the process of capital accumulation and suppressing concerns about the tensions between capitalism and socio-economic and environmental concerns. In this context, CSR provided corporate managers and political elites with a tool, used to maintain the status quo and masked conflicting interests under the notion of 'corporate social responsibility'.

## APPENDICES

Appendix 1-1: Incidence of Poverty by Ethnicity, 1970-2009<sup>234</sup>

	1970 <sup>a</sup>	1976	1979	1984	1987	1989 <sup>b</sup>	1992	1995	1997	1999 <sup>c</sup>	2002	2004	2007	2009	
<b>Malaysia</b>	49.3	37.7	37.4	20.7	19.4	16.5	12.4	8.7	6.1	8.5	6.0	5.7	3.6	3.8	
<b>Etnik/Ethnic</b>															
Bumiputera	64.8	46.4 <sup>a</sup>	49.2	28.7	26.6	23.0	17.5	12.2	9.0	12.3	9.0	8.3	5.1	5.3	
Cina/Chinese	26.0	17.4 <sup>a</sup>	16.5	7.8	7.0	5.4	3.2	2.1	1.1	1.2	1.0	0.6	0.6	0.6	
India/Indians	39.2	27.3 <sup>a</sup>	19.8	10.1	9.6	7.6	4.5	2.6	1.3	3.4	2.7	2.9	2.5	2.5	
Lain-lain/Others	44.8	33.8 <sup>a</sup>	28.9	18.8	20.3	22.8	21.7	22.5	13.0	25.5	8.5	6.9	9.8	6.7	
<b>Strata</b>															
Bandar/Urban	21.3	15.4	17.5	8.5	8.5	7.1	4.7	3.6	2.1	3.3	2.3	2.5	2.0	1.7	
Luar Bandar/Rural	58.7	45.7	45.8	27.3	24.8	21.1	21.2	14.9	10.9	14.8	13.5	11.9	7.1	8.4	
<b>Negeri/State</b>															
Johor	45.7	29.0	18.2	12.2	11.1	9.8	5.6	3.1	1.6	3.1	2.5	2.0	1.5	1.3	
Kedah	63.2	61.0	53.8	36.6	31.3	29.9	21.2	12.2	11.5	14.2	9.7	7.0	1.1	5.3	
Kelantan	76.1	67.1	55.0	39.2	31.6	29.6	29.5	22.9	19.2	25.2	17.8	10.6	7.2	4.8	
Melaka	44.9	32.4	20.4	15.8	11.7	12.4	8.5	5.3	3.5	2.9	1.8	1.8	1.8	0.5	
N.Sembilan	44.8	33.0	26.3	13.0	21.5	9.1	8.1	4.9	4.7	4.1	2.6	1.4	1.3	0.7	
Pahang	43.2	38.9	26.9	15.7	12.3	10.0	6.9	6.8	4.4	9.8	9.4	4.0	1.7	2.1	
P.Pinang	43.7	32.4	19.7	13.4	12.9	8.7	4.0	4.0	1.7	0.7	1.2	0.3	1.4	1.2	
Perak	48.6	43.0	30.5	20.3	19.9	19.2	10.2	9.1	4.5	6.8	6.2	4.9	3.4	3.5	
Perlis	73.9	59.8	63.1	33.7	29.1	17.4	19.8	11.8	10.7	13.6	8.9	6.3	7.0	6.0	
Selangor	29.2	22.9	14.5	8.6	8.9	7.6	4.3	2.2	1.3	1.9	1.1	1.0	0.7	0.7	
Terengganu	68.9	60.3	53.1	28.9	36.1	31.3	25.6	23.4	17.3	22.7	14.9	15.4	6.5	4.0	
Sabah/F.T.Labuan	-	58.3	40.7	33.1	35.3	29.7	27.8	22.6	16.5	23.4	16.0	23.0	16.0	19.2	
Sarawak	-	56.5	47.8	31.9	24.7	21.0	19.2	10.0	7.3	10.9	11.3	7.5	4.2	5.3	
F.T.KL	-	-	-	4.9	5.2	3.7	1.7	0.5	0.1	0.4	0.5	1.5	1.5	0.7	
F.T. Putrajaya	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Nota/Note:</b>							<b>Sumber/Source:</b>								
<sup>a</sup> Merujuk kepada Semenanjung Malaysia sahaja <i>Refers to Peninsular Malaysia only</i>							1) Penyiasatan Selepas Banci Penduduk dan Perumahan, 1970 (rujukan 1970) <i>Post Enumeration Survey of 1970 Population and Housing Census (reference 1970)</i>								
<sup>b</sup> Mulai tahun 1989, data adalah berdasarkan kepada warganegara Malaysia <i>Starting 1989, data is based on Malaysian citizens</i>							2) Penyiasatan-penyiasatan Pendapatan Isi Rumah <i>Household Income Surveys</i>								
<sup>c</sup> Mulai tahun 1999 dan seterusnya, pengiraan kemiskinan adalah berdasarkan metodologi 2005 <i>From 1999 onwards, calculation of poverty is based on 2005 Methodology</i>							3) Kompilasi statistik <i>Statistical compilations</i>								

<sup>234</sup> [http://www.epu.gov.my/c/document\\_library/get\\_file?uuid=5bf3a7ca-37a7-4ebb-96c6-634ce17141dc&groupId=34492](http://www.epu.gov.my/c/document_library/get_file?uuid=5bf3a7ca-37a7-4ebb-96c6-634ce17141dc&groupId=34492)

Appendix 1-2: Gini Coefficient by Ethnicity, 1970-2009<sup>235</sup>

	1970 <sup>a</sup>	1974 <sup>a</sup>	1976 <sup>a</sup>	1979	1984	1987 <sup>a</sup>	1989 <sup>b</sup>	1992	1995	1997	1999	2002	2004	2007	2009	
<b>Malaysia</b>	0.513	0.530	0.557	0.505	0.483	0.456	0.442	0.459	0.456	0.459	0.443	0.461	0.462	0.441	0.441	
<b>Etnik/Ethnic</b>																
Bumiputera	0.466	0.476	0.506	0.468	0.464	0.447	0.429	0.442	0.441	0.448	0.433	0.435	0.452	0.430	0.440	
Cina/ <i>Chinese</i>	0.466	0.520	0.541	0.474	0.452	0.428	0.419	0.420	0.428	0.416	0.434	0.455	0.446	0.432	0.425	
India/ <i>Indians</i>	0.472	0.451	0.509	0.460	0.419	0.402	0.390	0.402	0.404	0.409	0.413	0.399	0.425	0.414	0.424	
Lain-lain/ <i>Others</i>	0.667	0.665	0.630	0.598	0.570	0.663	0.404	0.556	0.414	0.555	0.393	0.449	0.462	0.545	0.495	
<b>Strata</b>																
Bandar/ <i>Urban</i>	n.a.	0.541	0.531	0.491	0.468	0.449	0.444	0.439	0.431	0.427	0.432	0.439	0.444	0.427	0.423	
Luar Bandar/ <i>Rural</i>		0.473	0.540	0.471	0.450	0.427	0.416	0.401	0.410	0.424	0.421	0.405	0.397	0.388	0.407	
<b>Negeri/State</b>																
Johor	n.a.	0.439	0.469	0.442	0.404	0.386	0.381	0.423	0.399	0.397	0.386	0.408	0.395	0.368	0.393	
Kedah		0.523	0.497	0.468	0.476	0.434	0.428	0.433	0.406	0.429	0.409	0.426	0.387	0.392	0.408	
Kelantan		0.612	0.505	0.438	0.464	0.414	0.407	0.451	0.442	0.442	0.424	0.444	0.416	0.368	0.428	
Melaka		0.506	0.558	0.472	0.438	0.403	0.396	0.397	0.399	0.371	0.399	0.386	0.352	0.380	0.411	
N.Sembilan		0.465	0.490	0.432	0.422	0.431	0.366	0.406	0.384	0.408	0.392	0.401	0.380	0.385	0.372	
Pahang		0.445	0.384	0.478	0.416	0.372	0.350	0.369	0.373	0.359	0.332	0.404	0.389	0.380	0.382	
P.Pinang		0.597	0.608	0.492	0.452	0.422	0.406	0.412	0.405	0.398	0.399	0.435	0.398	0.411	0.419	
Perak		0.452	0.525	0.447	0.428	0.410	0.421	0.399	0.397	0.381	0.387	0.417	0.393	0.399	0.400	
Perlis		0.425	0.498	0.440	0.459	0.408	0.377	0.415	0.379	0.412	0.394	0.437	0.423	0.454	0.434	
Selangor		0.507	0.516	0.505	0.481	0.462	0.444	0.446	0.424	0.409	0.394	0.423	0.443	0.418	0.424	
Terengganu		0.502	0.482	0.458	0.461	0.478	0.459	0.448	0.464	0.466	0.440	0.424	0.443	0.399	0.418	
Sabah/F.T.Labuan		-	-	-	0.490	0.491	0.467	0.459	0.468	0.448	0.454	0.448	0.465	0.477	0.450	0.453
Sarawak		-	-	-	0.501	0.498	0.465	0.441	0.467	0.440	0.447	0.407	0.445	0.440	0.442	0.448
F.T.KL	-	-	-	-	0.486	0.465	0.428	0.443	0.423	0.417	0.414	0.448	0.467	0.446	0.374	
F.T. Putrajaya	-	-	-	-	-	-	-	-	-	-	-	-	-	0.362	0.342	

**Nota/Note :**<sup>a</sup> Merujuk kepada Semenanjung Malaysia sahaja*Refers to Peninsular Malaysia only*<sup>b</sup> Mulai tahun 1989, data adalah berdasarkan kepada warganegara Malaysia  
*Starting 1989, data is based on Malaysian citizens***Sumber/Source :**1) Penyiasatan Selepas Banci Penduduk dan Perumahan, 1970 (rujukan 1970)  
*Post Enumeration Survey of 1970 Population and Housing Census (reference 1970)*2) Penyiasatan-penyiasatan Pendapatan Isi Rumah  
*Household Income Surveys*3) Kompilasi statistik  
*Statistical compilations*n.a. Menunjukkan tiada maklumat  
*n.a. Denotes not available*<sup>235</sup> [http://www.epu.gov.my/c/document\\_library/get\\_file?uuid=bc7f0f87-72d4-48d8-8e8f-65920e480783&groupId=34492](http://www.epu.gov.my/c/document_library/get_file?uuid=bc7f0f87-72d4-48d8-8e8f-65920e480783&groupId=34492)

Appendix 1-3: CSR initiatives in the 2007-2013 Budget Reports<sup>236</sup>

Budget Report	CSR Initiatives	Tax Incentives
2007	<ul style="list-style-type: none"> <li>• Created annual CSR reporting requirement for public-listed corporations (PLCs).</li> <li>• Stated that EPF and KWAP will give favourable consideration to PLCs with good CSR practices in their investment decisions.</li> <li>• Introduced the Prime Minister's CSR Awards) to recognize business sector contribution to CSR.</li> </ul>	Increased ceiling for tax deductions on charitable contributions from 5 to 7% of aggregate income.
2008	<ul style="list-style-type: none"> <li>• Established CSR fund to jointly fund projects implemented by the private sector to benefit low-income Malaysians with initial funding of RM50 million. Projects will include home repair and creating employment opportunities.</li> <li>• Expanded the annual reporting requirements for PLCs to include diversity statistics.</li> <li>• Created permanent secretariat for PINTAR and extended program to private companies.</li> </ul>	Implemented a tax deduction on private sector investments that provides significant benefits to the local community, such as playgrounds and overhead bridges.
2009	<ul style="list-style-type: none"> <li>• Encouraged private sector investment in the philanthropy (<i>Program Amal Jariah</i>), which repairs rundown homes for the hard-core poor nationwide, by creating a matching grant programme.</li> <li>• Expressed full support of the palm oil plantations' pursuit of RSPO certification. Established the RSPO Fund with an allocation of RM50 million to support plantations in the certification process and activities "such as upgrading of schools in plantations, as well as implementing conservation programmes" (paragraph 60). The budget allocation is being managed by the Ministry of Plantation Industries and Commodities.</li> </ul>	<p>Proposed an increase to the ceiling on tax deductions for contributions to charitable organizations from 7% to 10% of aggregate income.</p> <p>Created a 10% tax deduction on the cost of developing on-site child care centres.</p>
2010	<ul style="list-style-type: none"> <li>• The private sector and GLCs were reminded not to neglect their social responsibilities in their quest for profits. In line with this, 1MB established a CSR fund totalling RM100million to finance community activities (paragraph 33).</li> <li>• An allocation of RM30billion for primary and secondary education benefited 5.5 million students nationwide. The allocation includes emoluments, student assistance and scholarship programme, construction of 80 new schools, 1,100 additional blocks</li> </ul>	

<sup>236</sup> Source: United Nations Children's Fund (UNICEF) (2009), Corporate Social Responsibility Policies in Malaysia: Enhancing the Child Focus.

Budget Report	CSR Initiatives	Tax Incentives
	<p>and 347 school replacement projects. RM1.1billion was provided to refurbish and upgrade schools nationwide, especially in Sabah and Sarawak (paragraph 60).</p> <ul style="list-style-type: none"> <li>• Incorporating pre-school education as part of the mainstream national education system in order to increase participation rate of children between 5-6 years in Government and private pre-schools from 67% to 87% by 2012 (paragraph 62).</li> <li>• RM32million was allocated to increase literacy and numeracy rates by implementing a programme targeting all Year 1 school children (paragraph 64).</li> <li>• 50,000 hard-core poor households registered with eKasih and 4,000 Orang Asli households were given assistance (paragraph 110). RM48million was allocated to implement urban poverty eradication programmes (paragraph 113).</li> <li>• RM14.8billion was allocated to manage, build and upgrade hospitals and clinics (paragraph 118).</li> <li>• The allowance rate increased from RM50 to RM150 a month for disabled children enrolled in NGO-organised special school. An allocation of RM3.3million was provided and almost 4,400 disabled children received the benefit (paragraph 120).</li> </ul>	
2011	<ul style="list-style-type: none"> <li>• The Government further intensified PPP (public-private partnership) initiatives to enhance private sector involvement in economic activities. They allocated RM1billion to fund PPP projects including a Women and Children's Hospital in Kuala Lumpur (paragraph 18).</li> <li>• In order to nurture children with good values and knowledge, the Government increased pre-school enrolment rate, the target was to reach 72% by end-2011 through an additional 1,700 classes, strengthening the curriculum and appointing 800 pre-school graduate teachers (paragraph 58).</li> <li>• RM111million was allocated for PERMATA programmes that included the construction of the second phase of Sekolah PERMATA Pintar School Complexes, 32 PERMATA Children Centres (PAPN) and financing the operations of 52 completed PAPNs as well as continuing PERMATA Pintar, Seni, Insan and Remaja programmes (paragraph 59).</li> <li>• The Government regards every child regardless of race as a national asset and</li> </ul>	



Budget Report	CSR Initiatives	Tax Incentives
	<p>a future leader and thus allocated RM250 million for development expenditure to religious schools, Chinese-type schools, Tamil national schools, missionary schools and Government-assisted schools nationwide (paragraph 60).</p> <ul style="list-style-type: none"> <li>• Provided and re-branded 40 1Malaysia TASKA, managed by the Department of Social Welfare to assist women to obtain quality childcare and early education for their children (paragraph 75).</li> <li>• Allowed flexibility to self-determine fully paid maternity leave, not exceeding 90 days from the current 60 days in order to improve the maternity leave facility for female civil servants (paragraph 76).</li> <li>• Allocated RM121million to children's assistance programme to enable them to receive quality childcare and early education. This benefitted 97,000 children (paragraph 81).</li> <li>• CSR was highlighted by the Government as important to the implementation of community projects. Khazanah Nasional in collaboration with the Ministry of Education established 10 Trust Schools which was managed more professionally to ensure quality education. In addition to the normal Government allocation, these schools received contributions from Khazanah Nasional (paragraph 103).</li> <li>• 1MBD provided RM20million to the 1Malaysia Youth Fund and these funds were used to implement 1Malaysia Mobile Clinics (paragraph 105).</li> </ul>	
2012	<ul style="list-style-type: none"> <li>• Allocated RM13.6billion to the social sector and this included education and training, health, welfare, housing and community development (paragraph 14).</li> <li>• Allocated an additional RM2.5billion to the public-private partnerships Facilitation Fund which was set up under the 10MP (paragraph 21).</li> <li>• RM50.2billion was allocated to the education sector with RM1.9billion out of the amount for the Ministry of Education to spend on; national schools, national-type Chinese and Tamil schools, mission schools and Government assisted religious schools (paragraph 41).</li> <li>• RM1billion was provided for a special fund for the construction, improvement and maintenance of schools, particularly to cater for the immediate needs of schools (paragraph 42).</li> </ul>	

Budget Report	CSR Initiatives	Tax Incentives
	<ul style="list-style-type: none"> <li>• The Government abolished payment from primary and secondary school children who were in the past, paying for co-curriculum, internal test papers, Malaysian Schools Sports Council fees and insurance payment. A sum of RM150million was allocated to support this abolishment (paragraph 43).</li> <li>• To promote the health of mother and child, a hospital for women and children will be constructed in Kuala Lumpur through PPP, which will cost of RM700million (paragraph 100).</li> <li>• Schooling assistance of RM100 will be given to all primary and secondary students from Year 1 to Form 5 nationwide. This assistance is aimed at reducing schooling expenses and is expected to benefit 5.3million students which involves an allocation of RM530million (paragraph 112).</li> </ul>	
2013	<ul style="list-style-type: none"> <li>• A total of RM11.1billion is allocated to the social sector which includes education and training, health, welfare, housing and community development (paragraph 13).</li> <li>• The Government launched the Malaysia Education Blueprint 2013-2025 to ensure that the national education system is capable of optimising the potential of each Malaysian child (paragraph 58).</li> <li>• A sum of RM38.7billion is allocated to the Ministry of Education for operating and development expenditure (paragraph 59).</li> <li>• RM500million will be allocated to enhance teaching skills in core subjects such as <i>Bahasa Malaysia</i> (Malay Language), English, Science and Mathematics through the Higher Order Thinking Skills approach and this includes the establishment of an Education Delivery Unit to monitor and evaluate the effectiveness of the transformation plan (paragraph 60).</li> <li>• Allocated an additional RM1billion to the Special Fund for Building, Improvement and Maintenance of Schools set up in 2012 (paragraph 61).</li> <li>• Allocated RM1.2billion to pre-school education to Jabatan Kemajuan Masyarakat, Ministry of Education (MOE), PERMATA and Department of National Unity and Integration. An addition of RM380million was allocated to the MOE for the placement of kindergarten teachers (paragraph 61).</li> <li>• A launch grant of RM10,000 will be given</li> </ul>	<p>A double deduction on the allowance or subsidies provided to employees and expenses for the maintenance of childcare centres will be given to employers (paragraph 63).</p> <p>Income tax exemption for 5 years and industrial building allowance at the rate of 10% a year will be given to operators of private pre-schools (paragraph 63).</p>

Budget Report	CSR Initiatives	Tax Incentives
	<p>to assist operators of Early Childhood Care and Education (ECCE) private centres in opening new high quality pre-schools. This is estimated to assist 1,000 new private ECCE centres (paragraph 63).</p> <ul style="list-style-type: none"> <li>• The Government will implement a pilot project for TASKA OKU in six categories of disabled children i.e. down syndrome, autism, blind and partially sighted, hearing and speaking disabilities, physical disability and learning difficulties (paragraph 64).</li> <li>• RM1.2billion will be allocated to the Ministry of Women, Family and Community Development to assist programmes which include children (paragraph 110).</li> <li>• The Government pledges continuous support to primary and secondary school students, especially those from low-income families, by allocating RM2.6billion to include per capita grant, hostel meal assistance programme, Food Supplement Programme (RMT), purchase of text books and assistance for payment of additional school fees (paragraph 149).</li> <li>• The Government announced Schooling Assistance of RM100 in the 2012 Budget and plans to do the same in 2013 (paragraph 150).</li> <li>• The Government announced its hope for the private sector, corporate bodies and GLCs to play a bigger role in the development and the well-being of the citizen (<i>rakyat</i>) through CSR (paragraph 157).</li> <li>• Felda will spend RM100million a year on education, skills training programmes and scholarships for 5,000 new generation children from which 30% or 2,000 people are children outside of the Felda scheme (paragraph 157).</li> <li>• The 1Malaysian Development Berhad Trust will allocate RM300million to provide educational grants and financial assistance to build <i>rumah arau</i> pre-school students in the interior of Sarawak, 1Malaysia Mobile Clinic and repair houses for the poor and needy (paragraph 157).</li> <li>• GLCs and GLCs will allocate about RM500million for CSR in community development, scholarships, education, sports and environment (paragraph 157).</li> </ul>	

**Appendix 1-4: Example of Tax Incentives in CSR-Related Activities**

<b>Area</b>	<b>Incentives</b>	<b>Reference</b>
Education	Child care centre facilities	Section 34 (6) (i) of Income Tax Act 1967
	School and learning centre for children with learning disabilities	PU A 247/2008 Income Tax (Exemption) (No. 5) Order 2008
	Library services	Section 34 (6) (g) and Section 44 (8) of Income Tax Act 1967
	Scholarship	Section 34 (6) (l) of Income Tax Act 1967
Community	Contribution to the community	Section 34 (6) (h) of Income Tax Act 1967
	Provision for disabled person	Section 44 (9) of Income Tax Act 1967
	<i>Skim Latihan 1Malaysia</i>	Double Tax Deduction
Environment	Forest plantation project	Pioneer Status/Investment Tax Allowance
	Recycling of agricultural waste or agricultural by-products, chemicals and reconstituted wood-based panel boards or products	
	Storing, treating and disposing of dangerous toxic and hazardous waste	
	Energy conservation	
	Utilising biomass	

### **Appendix 2-A1: The brief history of TM**

The history of Telekom Malaysia could be traced back to the establishment of the Telecommunications Department of Malaya in 1946. In 1968, the Telecommunications Department of Malaya was merged with the Telecommunications Department of Sabah and Sarawak and subsequently formed the Telecommunications Department of Malaysia (JTM).<sup>237</sup> JTM was a government department under the Ministry of Energy, Telecommunications and Posts. As a government agency, JTM was responsible for both providing telecommunications services and network to the public at large and acted as regulator of telecommunication industry. JTM was the sole provider of fixed line and mobile phone services in Malaysia before the liberalization of the telecommunications industry in 1990s.

After almost two decades, JTM was corporatized under Malaysian Incorporation Policy and later formed Syarikat Telekom Malaysia Berhad in 1987; became the first corporate entity in Malaysia (TM's Annual Report, 2011; 2012). The problem of public enterprises has pressed for privatization, including telecommunications industry. In 1990, the corporation was privatized under the Privatization Act and has rebranded its name to Telekom Malaysia Berhad. This marked a significant milestone as the corporation begun the liberalization process by going from government-owned to the commercial status.

As access to contracts and licenses for the telecommunications network and its services have always been under the state control, it is claimed that privatization eventually created opportunity to establish Malay-owned corporations, in concert with NEP goal of expanding Malay levels of corporate ownership (Mesher and Zajac, 1997).<sup>238</sup> According

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<sup>237</sup> JTM is a government unit within the Ministry of Energy, Telecommunications and Posts. JTM is concerned with keeping IT-related prices down.

<sup>238</sup> Kennedy (1990, 1995) and Jomo and Gomez (1999) argue that political patronage was responsible for the liberalization of the sector before and after the privatization of JTM.

to Zita<sup>239</sup>, licenses were issued, in largely opaque manner, in which requests for licenses frequently by-passed JTM and went directly to the PM's Office, with the JTM periodically not informed of licensing decisions until after the fact. It is argued that many notable political elites and personal individual associates of ruling regime were successful at obtaining licenses.

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<sup>239</sup> Zita, Ken., Malaysia Telekom Brief. [http://www.ndaventures.com/Malaysia\\_Telecom\\_brief\\_pdf](http://www.ndaventures.com/Malaysia_Telecom_brief_pdf))

### Appendix 2-A2: Awards and Recognitions for TM's CSR Initiatives

Awarded Body/Awards	Year	Categories
National Annual Corporate Report Awards (NACRA)	2012	<ul style="list-style-type: none"> <li>• Silver Award – Overall Excellence for Best Annual Report</li> </ul>
	2011	<ul style="list-style-type: none"> <li>• Platinum Award – Overall Excellence Award for Most Outstanding Annual Report of the Year</li> <li>• Silver Award for CSR</li> </ul>
	2010	<ul style="list-style-type: none"> <li>• Gold Award – Overall Excellence</li> <li>• Platinum Award – CSR</li> </ul>
	2009	<ul style="list-style-type: none"> <li>• Gold Award – Overall Excellence</li> <li>• Gold Award – CSR</li> </ul>
	2008	<ul style="list-style-type: none"> <li>• Gold Award – Overall Excellence</li> <li>• Silver Award – CSR</li> </ul>
Association of Chartered Certified Accountants (ACCA) Malaysia Sustainability Reporting Awards (MaSRA)	2011	<ul style="list-style-type: none"> <li>• Reporting on Social Performance</li> </ul>
Malaysian Corporate Governance (MCG) Index Awards	2011	<ul style="list-style-type: none"> <li>• Best CSR</li> </ul>
Prime Minister's CSR Awards	2010	<ul style="list-style-type: none"> <li>• Best Workplace Practices</li> </ul>
	2009	<ul style="list-style-type: none"> <li>• Best Workplace Practices</li> </ul>
Malaysian Business-CIMA Enterprise Governance Awards	2009	<ul style="list-style-type: none"> <li>• 1<sup>st</sup> Runner-Up – CSR Category</li> </ul>
	2008	<ul style="list-style-type: none"> <li>• 1<sup>st</sup> Runner-Up – CSR Category</li> </ul>
STARBIZ ICRM Corporate Responsibility Award	2009	<ul style="list-style-type: none"> <li>• Community Category</li> </ul>
	2008	<ul style="list-style-type: none"> <li>• Workplace Category</li> </ul>

Source: TM's Annual Report (2012)

### **Appendix 2-B1: The IOI Corporation**

IOI is incorporated on 31 October 1969 as Industrial Oxygen Incorporated Sdn. Bhd. and started off its business as an industrial gas manufacturing enterprise. It ventured into property development in 1982 and palm oil plantations in 1985. The Group is headed by Tan Sri Lee Shin Cheng, listed by Forbes (2012) as the 4th richest person in Malaysia with a worth reported at US\$5.2 billion. Lee and his family have a substantial control over the group where the shares are held via Progressive Holdings Sdn Bhd.

In September 2006, IOI acquired the shares from Rinwood Oil Palm Plantation and the joint-venture corporation was renamed IOI Pelita Plantations Sdn. Bhd. (IOI Pelita). IOI acquired 9.1 million shares or 70% equity interest in the corporation for RM 21.3 million cash. In this venture into Sarawak, IOI Group executive chairman Lee Shin Cheng promised *'to bring in its superior planting materials, expertise, best practices and technology... while at the same time ensuring greater environmental sustainability.'* As of 29<sup>th</sup> February 2012, IOI Pelita claims to own a gross area of 9,040 hectares with a planted area of 4,269 hectares.



## Appendix 2-B2: The Grim Reality of IOI's CSR Practices in Sarawak

	
<p>Entrance to IOI's Estate, which continues to operate on NCR land despite the 2010 court decision.  <i>Source: Grassroots Report (2010)</i></p>	<p>No buffer between the plantings and the river.  <i>Source: Grassroots Report (2010)</i></p>
	
<p>Jerry cans containing agrochemicals stored in the open and next to a river used by local community.  <i>Source: The Nut Graph</i></p>	<p>The living quarters of Indonesian workers.  <i>Source: Grassroots Report (2010)</i></p>

### Appendix 2-B3: The Grim Reality of IOI's CSR Practices in Indonesia

	
<p>Oil palm nursery of PT Bumi Sawit Sejahtera in the Conversion Forest area.</p> <p>Source: Milieudedefensie and Friends of the Earth Europe (2010:14)</p>	<p>One of the canals constructed in PT Bumi Sawit Sejahtera. This development is located in Conversion Forest.</p> <p>Source: Milieudedefensie and Friends of the Earth Europe (2010:15)</p>

## Appendix 3-1: Interview Guide

### (1) Corporate Managers

	Questions	Sub-Question
The Corporate Personnel	Roles and responsibilities of the interviewee	<i>Could you describe your role here? How long have you been here and what are your main responsibilities?</i>

No.		Questions	Sub-Question
1	Role of Business	The continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large (WBCSD, 1998).	<p><i>What do you think the role of business today? To whom should they have a responsibility?</i></p> <p><i>How does your company respond to the global demand for social and environmental responsibilities? What are the changes made and how it is implemented?</i></p> <p><i>How would you describe social and environmental responsibilities of your company? Why do you engage in CSR?</i></p>
2	CSR Initiatives	It has been argued that corporate activities have an impact on society and the environment through its operations, products and services and through their interaction with stakeholders (Korten, 2001; Stiglitz, 2002).	<p><i>What is your view on this?</i></p> <p><i>What are the main issues facing the company (for instance human rights issues, employment issues, environmental protection, efficiency, sustainable development, community relations)?</i></p> <p><i>How do you manage social and environmental concerns of various stakeholders? Do you have separate department responsible for social and environmental concerns?</i></p>
3	CSR Practices / Activities	CSR is about recognizing the impact of business practices on wider social, economic and environmental framework and the way businesses behaves towards them.	<p><i>What sort of codes of practice and conduct do you have in place? (How do you discharge your social and environmental responsibility?)</i></p> <p><i>How you integrate social, economic and environmental commitments into corporate culture and arrangements, product design and safety, occupational health and safety or environmental protection?</i></p> <p><i>How do your CSR strategy / codes of practice and conduct address the concern of people in Malaysia?</i></p> <p><i>Do you believe that social and environmental initiatives / practices should be related to the company's core business in some way? If so, why?</i></p> <p><i>What are the challenges that you have faced when implementing CSR policy or codes of practices and conduct?</i></p> <p><i>Do you ever experience conflict between the values of the company (in term of profit and cost efficiency) and the concern to safeguard social and environmental values? If so, how you reconcile between these two?</i></p>

		<p><i>In your opinion, what should be the main priorities to be pursued by the company in its CSR agenda?</i></p> <p><i>What are your next steps in CSR agendas?</i></p>
	<p><b>EMPLOYEES</b> Employee rights are embodied in the International Labour Organization's Declaration on the Fundamental Principles and Rights at Work and also in the Article 23 of the Universal Declaration of Human Rights.</p>	<p><i>What are the main issues facing the company with respects to human rights issues, employment or employees welfare?</i></p> <p><i>How you establish your relationship with employee (for instance trade union, team briefing, employee annual general meeting or site visits?)</i></p> <p><i>What systems are in place to implement and monitor the occupational health and safety?</i></p> <p><i>Does the company provide any types of benefits to the employees?</i></p>
	<p>Developing countries are facing with the issues of child labour and slave labour. Malaysia also has been accused of using child and slave labour, particularly in the garment and agriculture industry (The U.S. Department of Labor, 2009).</p>	<p><i>What is your view on this?</i></p> <p><i>In your opinion, what should be done to improve this area?</i></p>
	<p><b>ENVIRONMENT</b> CSR towards the environment involves making management decisions which minimize negative impacts arising from business activities.</p>	<p><i>How does your company respond to global environmental challenges?</i></p> <p><i>What are the main issues facing the company with regards to environmental protection or sustainable development?</i></p> <p><i>How does the company take care of environmental matters such as control of pollution, waste disposal control or acid rain that are arising from business activities?</i></p> <p><i>What systems or policies in place to access the environmental impacts of business activities?</i></p>
	<p><b>RESPONSIBILITY TO THE STATE</b> The loss of tax revenues limits the ability of government to provide or improve necessary social infrastructures to its citizen and to foster social and economic development. Nevertheless, the losses in the tax revenues are exaggerating through tax holiday incentives and exemptions.</p>	<p><i>What is your view with regards to tax avoidance and tax evasion?</i></p> <p><i>In your opinion, do corporate malpractices have socio-political and economic impact to the people in Malaysia?</i></p> <p><i>In your opinion, does this conflict with the notion of CSR?</i></p> <p><i>In your view, is there anything to be done by the private sectors to improve social infrastructures and economic development in Malaysia? (for instance the role of private sector in social development, i.e. poverty reduction).</i></p>
	<p><b>LOCAL COMMUNITY</b> There are some issues surrounding corporate activities with regards to local community such as displacement of community for business development, health and</p>	<p><i>What are the main issues facing the company with respects to community relations?</i></p> <p><i>How do you describe company's responsibilities towards local community?</i></p> <p><i>Does the company ever consider secondments of its staff in order to serve some useful purpose within the community?</i></p>

		disease, unemployment and so on.	<p><i>where the business activities are take place?</i></p> <p><i>What does your company could do to improve community welfare?</i></p>
4	Regulations (Regulators and Government Agencies)	There are other influences, in term of increased regulation, attention from pressure groups and NGOs or the performance of other companies. Does such influences cause an impact on what you do?	<p><i>How do you fell about regulation as a legitimate way of encouraging more responsible practice or do you regard it as a constraint?</i></p> <p><i>Does regulation provide the minimum or maximum standard, particularly in terms of socially and environmentally practices?</i></p> <p><i>Do you think it is important to work with other companies within similar industry in order to improve performance standards?</i></p>
5	Pressure Groups or NGOs / The Media		<p><i>Do you ever work or would you consider working with any pressure groups or NGOs?</i></p> <p><i>Do you ever experience any litigation on environmental matters by NGOs or public authority?</i></p>

## (2) Regulators and Government Agencies

	Questions	Sub-Question
The officer	Roles and responsibilities of the interviewee	<i>Could you describe your role here? How long have you been here and what are your main responsibilities?</i>

No.		Questions	Sub-Question
1	Role of Business	What is the role of business?	<p><i>What do you think the role of business? To whom should they have a responsibility?</i></p> <p><i>Do you think companies have "moral" responsibility – should the companies integrate social and environmental concerns into corporate decision-making?</i></p>
2	Perspectives on CSR	CSR is about how business takes into account the economic, social and environmental impacts of its operations.	<p><i>What are the main issues facing the company in Malaysia (for instance human rights issues, employment issues, environmental protection, efficiency, sustainable development, community relations)?</i></p> <p><i>What are your views on CSR practices by MNCs operating in Malaysia? How about Malaysian companies, particularly GLCs?</i></p> <p><i>Why do you think companies engage in CSR? Is it because of growing recognition that companies have a duty to act responsibly or it is merely for their survival?</i></p> <p><i>What is your view on the impact of business activities on the economic, social and environment?</i></p>
3	CSR Practices / Activities	<p>There is no doubt that companies at least appear to tackle social, environmental and economic issues.</p> <p>Given the enormous economic and political power possess by MNCs, the government sees CSR (particularly amongst GLCs) as a catalyst to accomplish social and economic development.</p>	<p><i>What do you think about this corporate commitment to CSR? Is it a genuine, long-term commitment?</i></p> <p><i>What is your view on company's policies with respect to environment, employee and local community?</i></p> <p><i>In your opinion, do company's CSR strategy / codes of practice and conduct address the concern of people in Malaysia?</i></p> <p><i>Do you think there can be such a thing as a responsible company? What qualities do you think make a responsible company?</i></p> <p><i>In your opinion, what is the role of business to the Malaysian government and society at large?</i></p> <p><i>In your opinion, does the corporate power affect their CSR practices?</i></p> <p><i>What are your views on tax avoidance and tax evasion practice by MNCs? Does this conflict with the notion of CSR?</i></p> <p><i>In what ways can the government play a role in enhancing CSR practices by Malaysian MNCs?</i></p>
4	CSR Disclosures	It has been argued that company will only provide social and	<p><i>What are your views on CSR information reported by Malaysian MNCs?</i></p> <p>a) <i>Are they sufficient</i></p>



		environmental information which is favourable to the corporate image and reputation (Deegan and Rankin, 1996).	<p>b) <i>Are they useful to stakeholders</i></p> <p>c) <i>In what ways do they reflect companies practices</i></p> <p><i>Do you think there is a gap between what has been disclosed in CSR report and what actually has been done?</i></p>
5	Regulations	<p>Malaysia has been accused of using child and slave labour, particularly in the garment and agriculture industry (The U.S. Department of Labor, 2009). Malaysia also has been accused of exploiting migrant workers (Amnesty International, 2010).</p>	<p><i>Do you have separate department responsible for social and environmental concerns? If so, what are the roles and responsibilities of that department?</i></p> <p><i>Are there any social and environmental incidences which have leded company into paying fines?</i></p> <p><i>What is your opinion on company's compliance with local and international regulations, particularly to issues concerning employees' rights, environmental protection and local community?</i></p> <p><i>Does regulation pertaining to social and environmental issues in Malaysia has been increased over the last few years? If so, what events that cultivate such changes?</i></p> <p><i>In your opinion, what do you think about regulation as a legitimate way of encouraging more responsible practice or do you regard it as a constraint?</i></p> <p><i>Do you ever receive complaints on anti-social behaviours by the MNCs? If so, what action has been taken against the MNCs?</i></p> <p><i>Do you think CSR can work when undertaken on the basis of self-regulation or should the government specify the requirements?</i></p> <p><i>These may include exploitation, forced labour and trafficking in persons. What is your view on this?</i></p> <p><i>Have you received any complaints of ill-treatment, extortion or other misconduct involving migrant workers? What actions have been taken against these anti-social behaviours?</i></p> <p><i>In your opinion, does Malaysian rules and regulations particularly with respect to labour and human rights are keeping pace with the international legislative reform?</i></p>

**(3) Pressure Groups, Non-Governmental Organizations (NGOs), Trade Union and The Media**

	<b>Questions</b>	<b>Sub-Question</b>
The activists	How did you become involved in this organisation and what is your role?	<i>How long have you been involve in CSR initiatives? Could you describe your role here and what are your main responsibilities?</i>

<b>No.</b>		<b>Questions</b>	<b>Sub-Question</b>
1	Role of Business	What is the role of business?	<p><i>What do you think the role of business? To whom should they have a responsibility?</i></p> <p><i>Do you think companies have "moral" responsibility – should the companies integrate social and environmental concerns into corporate decision-making?</i></p>
2	Perspectives on CSR	CSR is about how business takes into account the economic, social and environmental impacts of its operations.	<p><i>What are the main issues facing the company in Malaysia (for instance human rights issues, employment issues, environmental protection, efficiency, sustainable development, community relations)?</i></p> <p><i>What are your views on CSR practices by MNCs operating in Malaysia? How about Malaysian companies, particularly GLCs?</i></p> <p><i>Why do you think companies engage in CSR? Is it because of growing recognition that companies have a duty to act responsibly or it is merely for their survival?</i></p> <p><i>What is your view on the impact of business activities on the economic, social and environment?</i></p> <p><i>Does everybody aware of CSR, particularly with respect to social and environmental safety?</i></p>
3	CSR Practices / Activities	There is no doubt that companies at least appear to tackle social, environmental and economic issues.	<p><i>What do you think about this corporate commitment to CSR? Is it a genuine, long-term commitment?</i></p> <p><i>In your opinion, do company's CSR strategy / codes of practice and conduct address the concern of people in Malaysia?</i></p> <p><i>In your opinion, what should be the main priorities to be pursued by the company in its CSR agenda?</i></p> <p><i>In what ways has the companies been managing their social, environment and economic impact?</i></p> <p><i>Do you think social, environmental and economic responsibilities could be equally weighted within a business?</i></p> <p><i>Do you think there can be such a thing as a responsible company? What qualities do you think make a responsible company?</i></p>
		Given the enormous economic and political power possess by MNCs, the government	<p><i>In your opinion, what is the role of business to the Malaysian government and society at large?</i></p> <p><i>In your opinion, does the corporate power</i></p>



		sees CSR (particularly amongst GLCs) as a catalyst to accomplish social and economic development.	<p><i>affect their CSR practices?</i></p> <p><i>In what ways can the government play a role in enhancing CSR practices by Malaysian MNCs?</i></p>
4	CSR Disclosures	It has been argued that company will only provide social and environmental information which is favourable to the corporate image and reputation (Deegan and Rankin, 1996).	<p><i>What are your views on CSR information reported by Malaysian MNCs?</i></p> <p>a) <i>Are they sufficient</i></p> <p>b) <i>Are they useful to stakeholders</i></p> <p>c) <i>In what ways do they reflect companies practices</i></p> <p><i>Do you think there is a gap between what has been disclosed in CSR report and what actually has been done?</i></p>
5	Regulations	<p>There is no doubt that companies at least appear to comply with relevant laws and regulations.</p> <p>Regulations pertaining to social and environmental issues have been increased over the years at a global level.</p> <p>Environmental degradation in Malaysia has become more acute in the last decade. Species extinction, contamination of rivers, pollution, destruction of terrestrial and marine habitats, and degradation of natural</p>	<p><i>What is your opinion on company's compliance with local and international regulations?</i></p> <p><i>Are there any social and environmental incidences which have leded company into paying fines?</i></p> <p><i>Do you ever put pressure to any company to change its practice? Has the company responded? What justifications are given for responding or not responding?</i></p> <p><i>Do you ever work with any MNCs? Do you think it is important to work with companies or industry in order to improve performance standards?</i></p> <p><i>Does regulation pertaining to social and environmental issues in Malaysia has been increased over the last few years? If so, what events that cultivate such changes?</i></p> <p><i>In your opinion, what do you think about regulation as a legitimate way of encouraging more responsible practice or do you regard it as a constraint?</i></p> <p><i>Does regulation provide the minimum or maximum standard, particularly in terms of socially and environmentally practices?</i></p> <p><i>What do you think of the level of performance by the local councils and government enforcement agencies in dealing with social and environmental protection?</i></p> <p><i>Do you think CSR can work when undertaken on the basis of self-regulation or should the government specify the requirements?</i></p> <p><i>What are your views on this matter?</i></p> <p><i>What are the main issues facing the company with regards to environmental protection or sustainable development?</i></p> <p><i>What can you say about the company's policies and practices with respect to the environmental protection?</i></p> <p>a) <i>Does the company instigate any danger to the environment?</i></p> <p>b) <i>Control of pollution and waste disposal</i></p>

		resources are common in Malaysia's environmental landscape (WWF-Malaysia)	<p>control?</p> <p>c) <i>Investment in environmental control and protection that you are aware of?</i></p> <p><i>What do you think of the present level of monitoring and enforcement capacity by the state agents?</i></p> <p><i>What could be done by Malaysian government in relation to environmental sustainability?</i></p>
		The loss of tax revenues limits the ability of government to provide or improve necessary social infrastructures to its citizen and to foster social and economic development.	<p><i>What are your views on this?</i></p> <p><i>In your view, is there anything to be done by the private sectors to improve social infrastructures and economic development in Malaysia? (for instance the role of private sector in poverty reduction).</i></p> <p><i>What are your views on tax avoidance and tax evasion practice by MNCs? Does this conflict with the notion of CSR?</i></p> <p><i>In your opinion, do these corporate malpractices have socio-political and economic impact to the people in Malaysia?</i></p>
			<p><i>What do you think about the company's policies and practices with respect to the employment and recruitment?</i></p> <p>a) <i>Non-discrimination between men and women or between local and foreign employees? How about disabled people?</i></p> <p>b) <i>Salary and other benefits? Is there any difference between local and foreign employees? Men and women? How about disabled people?</i></p> <p>c) <i>Unpaid overtime or excessive overtime?</i></p> <p>d) <i>On training and education?</i></p> <p>e) <i>All forms of forced labour and child labour?</i></p> <p><i>What do you think about the company's policies and practices with respect to the health and safety working condition?</i></p> <p>a) <i>What is your opinion on the working condition of the company?</i></p> <p>b) <i>Any protection against hazardous substances?</i></p> <p>c) <i>Any occupational accidents or work related disease that you are aware of?</i></p> <p>d) <i>Any emergency plan against the risks of site accident?</i></p> <p><i>What do you think about the company's policies and practices with respect to the trade union?</i></p> <p><i>Freedom of association and the right to collective bargaining?</i></p>
		Malaysia has been accused of using child and slave labour, particularly in the garment and agriculture	<p><i>These may include exploitation, forced labour and trafficking in persons. What is your view on this?</i></p> <p><i>In your opinion, does present institutional and social structures facilitates anti-social practices</i></p>

		industry (The U.S. Department of Labor, 2009). Malaysia also has been accused of exploiting migrant workers by international organizations (Amnesty International, 2010).	<i>in Malaysia?</i> <i>What could be done by Malaysian government to combat trafficking and other exploitation of migrant workers?</i>
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**(4) Employees / Local Community**

No.		Questions	Sub-Question
1	Perspectives on CSR	The continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large (WBCSD, 1998).	<p><i>Does the company have health and safety committee, in respect to working conditions and equipment? If so, what are their roles and responsibilities?</i></p> <p><i>What is your view on company's policies or practices with regards to the employment and health and safety issues at work?</i></p> <p><i>What systems are in place to implement and monitor the occupational health and safety?</i></p> <p><i>Do you ever make a complaint to company about problems that you had experienced at work? If so, what sort of response did you get? What is the means of communication involved?</i></p>
2	CSR Practices / Activities	What is your main concern regarding employment, employees welfare or human rights issues?	<p><i>What can you say about the company's policies and practices with respect to the employment and recruitment?</i></p> <ul style="list-style-type: none"> <li>• <i>Non-discrimination between men and women or between local and foreign staffs?</i></li> <li>• <i>How about disabled people?</i></li> <li>• <i>Salary and other benefits? Is there any difference between local and foreign staffs? Men and women? How about disabled people?</i></li> <li>• <i>Unpaid overtime or excessive overtime?</i></li> <li>• <i>On training and education?</i></li> <li>• <i>All forms of forced labour and child labour?</i></li> </ul> <p><i>What can you say about the company's policies and practices with respect to the health and safety working condition?</i></p> <ul style="list-style-type: none"> <li>• <i>What is your opinion on the working condition within the company?</i></li> <li>• <i>Any protection against hazardous substances?</i></li> <li>• <i>Any occupational accidents or work related disease that you are aware of?</i></li> <li>• <i>Any emergency plan against the risks of site accident?</i></li> </ul> <p><i>What can you say about the company's policies and practices with respect to the trade union?</i></p> <ul style="list-style-type: none"> <li>• <i>Freedom of association and the right to collective bargaining?</i></li> </ul> <p><i>What qualities do you think make a responsible company? How do you think company could be socially responsible?</i></p>
2	CSR Practices / Activities	How would you describe CSR practices and disclosures by MNCs?	<p><i>What is your main concern regarding business activities in this area (for instance environmental protection, sustainable development, community relations)?</i></p> <p><i>What can you say about the company's practices with respect to the environmental protection?</i></p>

			<ul style="list-style-type: none"> <li>• <i>Does the company instigate any danger to the environment?</i></li> <li>• <i>Control of pollution and waste disposal control?</i></li> </ul>
			<p><i>What can you say about the company's practices with respect to the local community?</i></p> <ul style="list-style-type: none"> <li>• <i>Does the company instigate any danger to the community?</i></li> <li>• <i>What contributions do the companies make to the local communities? Do you anticipate the companies to contribute in this way? If so, why?</i></li> </ul>
		The company's relationship with the environment and local community.	<p><i>Do you have any interaction with the companies operating in this area? What is the means of communication involved?</i></p> <p><i>Do you ever make a complaint to company about social and environmental problems that you had experienced? If so, what sort of response did you get?</i></p>
3	Pressure Groups or NGOs	Do you aware of any campaign by pressure groups / NGOs?	<i>Do you ever have any direct contact with pressure groups or NGOs? If so, in what capacity?</i>

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