Corporate Social Responsibility (CSR) and Organizational Performance: A Study of A Local Council

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Abstract—Corporate Social Responsibility (CSR) is generally being used to drive organizations to build up a great affiliation with external stakeholders and internal stakeholders to enhance organizational performance. Nevertheless, there is a lack of research on CSR and organizational performance in Malaysia's public sector. Corporate Social Responsibility (CSR) refers to a business approach that contributes to sustainable development by delivering economic, social, and environmental benefits for all stakeholders. This study aims to investigate the relationship between CSR and organizational performance amongst public sector employees. This study is quantitative, and questionnaires were distributed to collect information from a sample of 66 respondents. The data obtained through questionnaires were analyzed and evaluated by statistical test correlation to test the various hypotheses. The results indicate that CSR was positively correlated with organizational performance. Besides, the study also found significant relationships between all three dimensions of CSR with organizational performance. These results imply that CSR is positively correlated with organizational performance in the public sector. This study provides insights into the relationship between CSR and organizational performance in the public sector. This study has some limitations, and recommendations are discussed.

Index Terms—corporate social responsibility, organizational performance, philanthropic responsibility, ethical responsibility, legal responsibility, economic responsibility, local council

I. INTRODUCTION

In the last years, we witness a significant increase in society's overall focus on sustainable development issues. Corporate Social Responsibility (CSR) refers to a business approach that contributes to sustainable development by delivering economic, social, and environmental benefits for all stakeholders. CSR means managing their organization to minimize any negative impacts of their operations and maximize their positive impact on their community. Ali (2010) stated that corporations are using CSR to strengthen their relationships with different stakeholders, including customers, investors, government, suppliers, and employees. Corporate social responsibility (CSR) is regarded as an organization's social obligations [1, 2,3]. These obligations are often embedded in organizational policy and action to achieve economic, social, and environmental sustainability. The main objectives of the study are as follows:

1. To determine the level of Corporate social responsibility (CSR) and Organizational Performance in a local Council.
2. To examine the relationship between corporate social responsibility (CSR) and its dimensions and Organizational Performance in a local Council.

II. LITERATURE REVIEW AND HYPOTHESIS

A. Corporate Social Responsibility (CSR)

The first scholar who wrote on the topic of corporate dimension is Howard R. Bowen. Bowen is also known as the "Father of Corporate Social Responsibility" [4, 5, 6, 7]. Social responsibility for a business means they need to take responsibility for their decision and actions to society [8]. Furthermore, CSR required companies to concern about issues that go beyond the legal requirements, technical, and economics of the firm [9].

Recently, Malaysia has recently become one of the most dynamic emerging economies involved in corporate social responsibility [10]. Since 1974, CSR's development was started in Malaysia, where various parties raised several issues and acts. The government introduced the Environmental Quality Act to legislate environmental safety issues and pollution and instruct construction companies to comply with the Environmental Impact Assessment (EIA) before developing new housing areas or any projects. In 2004 Malaysian Institute of Integrity (IIM) was established under National Integrity Plan to promote CSR practices in both public and private companies. IIM is responsible for promoting ethical principles, good values, and integrity [11]. Most of the CSR studies in Malaysia focused widely on reporting and disclosure [12, 13]. CSR studies in the public sector are warranted, and this study is a step towards CSR studies in the public sector. Based on this definition, a company must act to "protect and improve both the welfare of the society as a whole and
the organization's interest” [14]. [15] Caramela stated that CSR is a program that gives organizations opportunities to demonstrate their good corporate citizenship and look at the company's social and environmental surroundings to protect the company from outsized risk.

Corporate Social Responsibility, based on four parts of Carroll's definition, was initially expressed as follows: "Corporate social responsibility includes the discretionary (philanthropic), ethical, legal, and economic expectations that the society has towards organizations at a given point in time” [5]. In other words, these four responsibilities create a base or foundation that helps to represent the details and hence to frame or distinguish the nature of businesses' obligations towards the society of which it is a part. In this study, we use the Carroll Pyramid of Corporate Social Responsibility: philanthropic responsibility, ethical responsibility, legal responsibility, and economic responsibility.

Philanthropic responsibility is activities that are measured by the business's desires to take part in social activities that are not required by the law and not expected in the moral sense of the company [16]. Ethical responsibility connotes that the organizations will grasp those activities, standards, practices, and norms that, although they are not written into law, are expected [17]. Legal responsibility includes the firm's responsiveness to legal expectations mandated by the society which conforms to the law. Organizations play an essential role in establishing norms and values prevailing in societies and hence defining the current perception of what is legitimate [18]. According to Schwartz and Carroll [19], economic responsibility includes activities that have either direct or indirect positive economic effects on the company, such as profit and share value maximization.

The performance of the organization is somehow affected by corporate social responsibility in various ways. The company can increase rapidly and gain maximum revenue in the market as Corporate Social Responsibility (CSR) helps in the growth of financial performance of the company [20].

B. Organizational Performance

Based on [21], there are several definitions that stipulate the concept of organizational performance. More often than not, performance is a set of financial and non-financial indicators which show data on the level of accomplishment of objectives and results [21]. Organizational performance works as an indicator which reflects how successful an organization achieves their objectives [22, 23]. In addition, organizational performance can also be evaluated by looking through the organization's efficiency and effectiveness towards its goal accomplishment [24]. [25] Robbins and Coulter mentioned that performance is the quality and quantity of individual or group work accomplishment. In recent years, organizational performance, effectiveness, and efficiency are more often than not being considered similar [26]. [27] the book "Unlocking Public Value" defines "outputs as being the products, goods or services delivered by a public organization. Outcomes are the impacts, benefits or consequences for the public that those goods and services are designed to attain ". The same authors, based on the book "Measuring performance in public and nonprofit organizations" by [28], show that "outputs represent what a program actually does, whereas outcomes are the results it produces” [27]. In other words, the performance of the public organizations must rely on getting outcomes, and not just on outputs because outputs that do not contribute to enhancing the results can be obtained, and therefore they do not generate an increase of the public value (for example, the increase in the quality of the higher education is an outcome, increasing the number of students is an output that does not necessarily contribute to generating value, meaning generating quality for education). The citizens assess the public sector's performance through the benefits they get from public spending, based on the results generated by the public programs [29]. A review of the literature on organizational performance in the public sector reveals several theoretical studies that strive for comprehensiveness [30, 31]. Some studies emphasize the importance of performance generally [32, 33, 34], while others focus on performance measurement and monitoring [35, 36, 37, 38].

In order to operationalize the construct of public organizational performance, that is, speed, accuracy, and outcomes desired to respond to citizens' needs, the subjective measures developed by [39] were employed. The advantage of the scales proposed by [39] is that they can be used to evaluate organizational performance in terms of organizational effectiveness. The measures developed by the [40] approach were used to capture the level of organization responsiveness.

Objective performance data are usually preferred for evaluating organizational performance [41]. However, the use of perceptual measures is acceptable, especially when objective data are not available, as is the case in public sector organizations. Moreover, a number of studies have shown that objective measures of organizational performance correlate highly and positively with perceived measures [41, 42]. Accordingly, we relied on the current study on employee perceptions of organizational performance. This is consistent with prior public sector research on organizational performance [41,42, 43].

[44] researched to establish the relationship between corporate social responsibility and the financial performance of firms. He concluded that there was a statistically significant relationship between CSR and organization performance. The relationship between Corporate Social Responsibility (CSR) and organizational performance is hypothesized as follows:

\[ H1: \text{Corporate social responsibility has a positive relationship on Organizational Performance.} \]

[45] stated that the philanthropic stage has the aim to have a balance between the profit, people, and the planet. In this stage, the company does not only focus on profit but also social welfare. The basic premise that should be stressed is that CSR activities must align with the core
business because a good CSR initiative will have a positive impact on the company’s performance and the sustainability of the business [46]. The relationship between philanthropic responsibility and organizational performance is hypothesized as follows:

H1a: Philanthropic responsibility has a positive relationship on Organizational Performance.

Managers driven by their own ethical principles can change the way businesses operate [47]. The relationship between ethical responsibility and organizational performance is hypothesized as follows:

H1b: Ethical responsibility has a positive relationship with Organizational Performance.

[48] also mentioned that while fulfilling these legal obligations, it is essential that expectations of the business include their performance in a way that consistent with expectations of government and law. The relationship between legal responsibility and organizational performance is hypothesized as follows:

H1c: Legal responsibility has a positive relationship on Organizational Performance.

[49] examined the link between Corporate Social Responsibility (CSR) and economic performance by examining different impacts of positive and negative CSR activities. The relationship between economic responsibility and organizational performance is hypothesized as follows:

H1d: Economic responsibility has a positive relationship on Organizational Performance.

The Cronbach’s Alpha reliability for Corporate Social Responsibility (CSR) is 0.89 and for organizational performance is 0.82. Thus, it can be concluded that the independent variable and dependent variable are of acceptable reliability because the Cronbach’s Alpha is above 0.7 which is the acceptable level of reliability [50].

IV. RESULT AND DISCUSSION

The findings of the research collected through the questionnaire were analyzed descriptively to achieve the objectives of the study. The results of the study are as follows:

A. Description of the Sample

Out of 66 respondents, 54.5% were males, and 45.5% were females. The majority of the respondents were in the age range of above 46 years old (27.3%), 37-45 years old (24.2%), followed by 31-36 years old (18.2%). Those in the age range of 25 and below and 26-30 years old were only 15.2%, respectively.

Length of working experience range from 6-10 years (31.8%, followed by 1-5 years (30.3%), and 11-15 years (28.8%). The lowest working experience range from 16-20 years (9.1%). The highest education reported by respondents showed 37.9% had a bachelor's degree, 21.2% had a diploma, 15.2% had a professional qualification, 12.1% had a master's degree, and 6.1% had STPM. The majority of the respondents are married (57.6%), and 39.4% are single. Respondents reported their ethnicity as 54.5% Malay, 12.1% Iban, 10.6% Bidayuh, 9.1% Chinese, 9.1% Melanau and others 4.5%. The job category showed 45.5% support group 1, 34.8% professional management support group 2, and 19.7% professional management group. Table I below shows the demographic profile of the respondents.

| TABLE I. BACKGROUND INFORMATION OF RESPONDENTS |
|-----------------|----------------|----------|
| Gender          |                |          |
| Male            | 36             | 54.5     |
| Female          | 30             | 45.5     |
| Age             |                |          |
| < 25 years      | 10             | 15.2     |
| 26 - 30 years   | 10             | 15.2     |
| 31 - 36 years   | 12             | 18.2     |
| 37 - 45 years   | 16             | 24.2     |
| > 46 years old  | 18             | 27.3     |
| Length of working experience | | |
| 1-5 years       | 20             | 30.3     |
| 6-10 years      | 21             | 31.8     |
| 11-15 years     | 19             | 28.8     |
| 16-20 years     | 6              | 9.1      |
| Education Level |                |          |
| STPM            | 4              | 6.1      |
| Diploma         | 14             | 21.2     |
| Professional Qualification | 10 | 15.2 |
| Degree          | 25             | 37.9     |
| Master          | 8              | 12.1     |
| Marital status  |                |          |
| Single          | 26             | 39.4     |
| Married         | 38             | 57.6     |
The first objective is to determine the level of Corporate Social Responsibility (CSR) and organizational performance. Table II shows that employees in the local Council perceived CSR as very high (M= 4.53, SD= 0.306). The mean of philanthropic responsibility, ethical responsibility, and economic responsibility range between 4.52 to 4.56 respectively. Meanwhile, legal responsibility is high (M=3.36, SD= 0.33). On the other hand, the local Council's organizational performance level is also very high (M= 4.35, SD= 0.51).

### TABLE II. MEAN AND SD OF CSR AND ORGANIZATIONAL PERFORMANCE

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Social Responsibility (CSR)</td>
<td>4.33</td>
<td>0.30</td>
<td>Very high</td>
</tr>
<tr>
<td>Philanthropic responsibility</td>
<td>4.52</td>
<td>0.45</td>
<td>Very high</td>
</tr>
<tr>
<td>Ethical Responsibility</td>
<td>4.56</td>
<td>0.36</td>
<td>Very high</td>
</tr>
<tr>
<td>Legal Responsibility</td>
<td>3.36</td>
<td>0.33</td>
<td>high</td>
</tr>
<tr>
<td>Economic Responsibility</td>
<td>4.56</td>
<td>0.41</td>
<td>Very high</td>
</tr>
<tr>
<td>Organizational Performance</td>
<td>4.35</td>
<td>0.51</td>
<td>Very high</td>
</tr>
</tbody>
</table>

The second objective is to determine the relationship between Corporate Social Responsibility (CSR) and its dimension and organizational performance. Based on the correlation in Table III, there is a positive relationship between CSR and organizational performance (r=0.475, p<0.05). Thus, higher CSR is associated with higher organizational performance. Therefore, hypothesis H1, which states that a significant positive relationship exists between CSR and organizational performance, is accepted. In addition, a significant positive relationship was also found for all the dimensions of CSR and organizational performance. Thus H1a, H1b, H1c, and H1d are accepted.

### TABLE III. CORRELATION BETWEEN CSR AND ORGANIZATIONAL PERFORMANCE

<table>
<thead>
<tr>
<th>Variables</th>
<th>Organizational Performance</th>
<th>Hypotheses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Social Responsibility (overall)</td>
<td>0.475**</td>
<td>H1 accepted</td>
</tr>
<tr>
<td>Philanthropic Responsibility</td>
<td>0.268**</td>
<td>H1a accepted</td>
</tr>
<tr>
<td>Ethical Responsibility</td>
<td>0.403**</td>
<td>H1b accepted</td>
</tr>
<tr>
<td>Legal Responsibility</td>
<td>0.348**</td>
<td>H1c accepted</td>
</tr>
<tr>
<td>Economic Responsibility</td>
<td>0.368**</td>
<td>H1d accepted</td>
</tr>
</tbody>
</table>

V. CONCLUSIONS, LIMITATIONS, AND SUGGESTIONS.

The study results showed that the level of corporate social responsibility (CSR) and Organizational performance is very high. This study also found a significant positive relationship between CSR and organizational performance (r=0.475, p<0.05). This proved that CSR has a positive effect on organizational performance. Based on the findings, the relationship between the four dimensions of Corporate Social Responsibility (CSR) and organizational performance in the local Council was also positive. This is consistent with previous studies that investigated the relationship between external CSR and non-financial performance. [51,52] shows that external CSR positively improves employee attitudes, and employees' attention and behaviors contribute to corporation achievements. [53] a comprehensive review of empirical studies of the relationship between CSR and organizational performance found that, overall, firms perceived as having met social responsibility criteria have either outperformed or performed as well as other firms that are not necessarily socially responsible. This positive relationship has been supported by a recent meta-analysis of the relationship between CSR and organizational performance [54].

It is recommended that the local Council create a process or system to track Corporate Social Responsibility (CSR) activities and their effect on the organization for better results and effectiveness. Besides, CSR awards can be given to employees who have participated in CSR activities. This study has several limitations, such as a small sample size, and it was done in one local Council in Kuching only. This study's findings can be generalized to similar organizations such as local authorities and non-government organizations (NGOs), which are not-for-profit organizations since this study involves public sector agencies. It is recommended that future studies in CSR and organizational performance can consider using moderating or mediating variables such as public service motivation (PSM), job satisfaction, or Organizational citizenship behavior (OCB).
CONFLICT OF INTEREST

The author declare no enclit of interest

AUTHOR CONTRIBUTION

Kuldip Singh conducted the research, analysed the data and wrote the whole paper.

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