

## Challenges to Practice Corporate Social Responsibility

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### ABSTRACT

*In today's competitive business environment, corporate social responsibility has been emerged as a prominent concept. The concept has been much debated among the classical scholars (Friedman, 1962) and the modern scholars (Carroll, 1998). However, none of the scholars looks on the challenges involved in practicing Corporate Social Responsibility. This research revealed the critical challenges involved in practicing CSR using survey data collected from large corporations and small enterprises.*

**Keywords:** corporate social responsibility, challenges, corporate executives and Malaysia

### 1. INTRODUCTION

The practice of corporate social responsibility (CSR) has grown exponentially in the last decade and is gradually becoming a global trend (Lu and Castka, 2009). Corporate social responsibility (CSR) has emerged with unprecedented prominence in academic and business spheres alike (Kotler and Lee, 2005, McWilliams et al., 2006) more than ever before. The early studies prove; CSR improves image and reputation (Werther, 2005, Said et al., 2011), secure competitive advantage (Grigore and Balan, 2010). CSR also assists to risk management (Kytile and Ruggie, 2005) and approve corporate to gain access in the global market. It is not easy to carry a powerful business; a number of challenges may influence the practice of CSR, such as involvement of employees in social work is difficult; at the same time, it is time consuming and highly expensive (Lantos, 2001). There is a lack of research to find out the challenges in practicing CSR. Thus, this research seeks to investigate the critical challenges of practicing corporate social responsibility. The article got 205 respondents from various corporations in Malaysia including (Multinational Corporations); Government Linked Corporations), Public Listed Corporations and small-medium enterprises (SMEs). Using the census date, this study concludes enormous financial expenditure is the most critical challenges. Statistical software SPSS v17 has been employed to review the data.

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## **2. CORPORATE SOCIAL RESPONSIBILITY IN LITERATURE**

A literature review is an evaluative review of studies found in the literature related to a selected area. The review should describe, summarize, evaluate and explain the selected area based on a limited number of works that are essential to the area rather than trying to collect a large number of works that are not as closely connected to the topic area (Boote and Beile, 2005). In this section, researchers focus on the literature related with Corporate Social Responsibility in different countries.

A group of authors present CSR as marketing tool to gain access in the market (Vaaland et al., 2008). Another group of researchers (Sones et al., 2009) conducted an analysis to find the corporate social responsibility (CSR) message in the mission and core values statements of selected companies. The research finding shows that the main focus of CSR activities is reducing social costs by ensuring worker safety.

A study on Thai Corporations shows that the CSR activities in the Thai companies were based on moral or charitable motivations with a focus on both production-process and philanthropic outcomes. The five main categories of CSR within Thai corporations included training, arts and culture, sports, environment, and social safety. The study proves that the main driving forces behind the CSR activities were stakeholders' expectations, CEO leadership, and firm performance (Virakul et al., 2009).

It is extremely common that business organizations are expected to demonstrate their powerful activities towards society and environment as well as economy. However, over the past half century the bar has been gradually raised (Lantos, 2001). Corporate social responsibility (CSR) has gained unprecedented importance in academic and business sphere (McWilliams et al., 2006) more than ever before. Perhaps it is because the concept of corporate social responsibility enhances the image and reputation of a corporation (Balabanis et al., 1998, Ewing et al., 2010). The concept of CSR is becoming more accepted in today's business World, the web sites of more than 80% of the Fortune 500 companies address CSR issues (Bhattacharya and Sen, 2004).

As like as the large corporations, small and medium enterprises (SMEs) have widespread recognition in most economies. It is usually assumed that SMEs lack the resources to execute responsible activities. Although, research finding shows that SMEs are undertaking a range of responsible activities in Spain (Aragón-Correa et al., 2008) but in most of the countries SMEs are unable to practice CSR properly due to lack of resources (Siwar and Haslina, 2007). However, recent trends show that there is some improvement in the commitment of SMEs in the CSR programme (Nejati and Amran, 2009). Research finding shows that the SMEs are practicing CSR in response to buyer pressure to demonstrate CSR activities (Baden et al., 2009). Another research argued that SMEs are practicing CSR only to manage the supply chain (Ciliberti et al., 2008). However, the definition of CSR says it suitable

for business and beneficial for society (Lantos, 2001). Thus, it is essential to know, why all types of corporations are not practicing CSR willingly. Hence, the research question is; “what are the challenges involve in practicing CSR?” and the research objective is; “to investigate the crucial challenges to practice CSR”

### **3. CHALLENGES OF PRACTICING CSR**

Though there are several advantages to practicing corporate social responsibility (CSR), but it is not easy to implement. Corporations are facing numerous challenges to practice CSR in their business vicinity. Based on the literature, this research summarized twelve challenges to practice CSR.

There is little literature on challenges to practice CSR or social responsibility in business. According to Fenwick (2007), challenges that hinder adoption of social responsibility practice includes low stakeholder understanding and support. The author also mentioned that low management focus and strategy is a powerful challenge to practice CSR. Finally, insufficient cost-benefit analysis is a challenge to practice CSR(Fenwick, 2007). Another research group (Welford and Frost, 2006) includes few challenges to practice social responsibility. The challenges are lack of resources and skills, a lack of awareness of stakeholders' demands and inefficient production techniques. Thus, this research summarize following issues as crucial challenge for a corporate to practice CSR;

- i) Huge Financial Expenses
- ii) Getting employees' involved in CSR activities
- iii) Making connections with communities
- iv) Too time consuming
- v) Lack of commitment from top management
- vi) Lack of manpower to conduct CSR
- vii) Measuring the intangible benefits
- viii) Lack of acceptance by stakeholders
- ix) Lack of publicity though disclosure
- x) Lack of Knowledge about the importance of CSR
- xi) Lack of information to guide CSR activities
- xii) Getting equal commitment from management

### **4. RESEARCH METHODOLOGY**

This research is based on survey data collected from various corporations. The questionnaire has been developed based on literature review. One of the challenging points in social science research is to get a response from the participants. Previous studies such as Reed et al. (2002) got 7% responses, McDougall et al. (1994) got 11% responses, Gilgeous and Gilgeous (2001) got 15.4% responses. Thus, the researcher sent questionnaires randomly to 473 corporations in Malaysia. The

researcher planned to collect at least 300 responses among these 473 corporations. Ultimately, the researcher received only 213 responses from various types of corporations in Malaysia. Among the 213 responses, only 205 could be used, which is 45.03% of the total questionnaire (473). After collection of data, the data was entered into SPSS 17 version software. Mean and standard deviation techniques have been employed to analysis the data.

## 5. FINDINGS

Though corporate social responsibility assists corporations to save cost in the long-term, but the initial cost is enormous for most of the corporations. So, the managers ranked this challenge as the most difficult challenge for them to practice CSR. There is one research about the relation between a company's financial performance and CSR (McGuire et al., 1988) that is without a doubt most symptomatic. However, CSR activity requires massive financial investment. The lowest mean value (4.98) and 3.75 standard deviation suggests to the researcher that large financial expenses are the number one challenge for corporations. Getting employees' involvement in Corporate Social Responsible (CSR) activities is the second most challenging activity for the management to practice CSR. Most managers believed that employees do not want to go for community development activities willingly. On 8<sup>th</sup> March 2010, Prime Minister (PM) of Malaysia presented a solution to solve this problem, he asked corporations to give incentives to the employees involved with CSR activities (CRGuide, 2008).

Table 1.1 shows the crucial challenges to practice CSR. Based on the survey data, enormous financial expense is the most crucial challenge for a corporation to practice CSR. Thus, this study summarizes the twelve challenges to practice CSR.

Table 1.1 Challenges to practice CSR

Challenges	Mean	Std. Deviation	Rank
Huge financial expenses	4.9854	3.75405	1
Getting employees' involved in CSR activities	5.2829	3.08506	2
Making connections with communities	5.6390	3.06089	3
Too time consuming	6.0927	3.49596	4
Lack of commitment from top management	6.1268	3.19827	5
Lack of manpower to conduct CSR	6.1512	3.41587	6
Measuring the intangible benefits	6.4683	3.68692	7

Lack of acceptance by stakeholders	6.7024	3.02510	8
Lack of publicity though disclosure	7.1707	3.14909	9
Lack of Knowledge about the importance of CSR	7.3610	3.34700	10
Lack of information to guide CSR activities	7.4390	3.10320	11
Getting equal commitment from management	8.3756	3.43574	12

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*Source: Survey Data*

Making a connection with the community is not an easy job. At the same-time corporations are not abundantly clear what type of support is essential for the community. It is not clear what the expectations towards the corporation from the community are. Earlier research on CSR also mentioned that working for the community is the job of the corporate executive (Friedman, 1970). This research found that making the connection with the community as the third most challenging factor with mean value 5.64 and standard deviation 3.06.

Doing business in a responsible manner is always time consuming, and when it comes to serving for community development, then it took more time. Managers found this time consuming issue as a giant challenge for corporations to practice CSR. The mean value 6.09 and standard deviation value 3.49 makes the time consuming issue as the fourth most difficult challenge for a corporation to be a responsible business organization.

Top management is the main power force for each and every corporation, but sometimes this top level manager is not concerned about the essentiality of practicing CSR. This research had “lack of top management commitment” as the fifth most challenging for corporations to practice CSR. In Malaysia, most of the corporations do not have an assigned officer for CSR activities and they practice CSR under public relation (PR) department. The PR department needs to get voluntary staffs to conduct their activities. So, corporate executives ranked lack of manpower to conduct CSR activities as the sixth most crucial challenge to practice CSR. It is tough to measure the intangible benefits of CSR, and it is true that multinational or large corporation always try to measure intangible assets like, image, reputation, or goodwill. But, it is not easy for small sized enterprises to measure all kinds of intangible assets when it comes to responsible business.

Table 1.2 Observation of respondents about the Crucial Challenges

Core Challenges	Level of Challenges											
	1	2	3	4	5	6	7	8	9	10	11	12
Huge financial expenses	66	9	15	16	13	10	21	10	12	10	7	16
Getting employees involved in CSR activities	19	26	23	31	25	16	10	13	11	20	7	4
Making connections with communities	24	17	26	17	11	13	27	30	24	6	6	4
Too time consuming	18	31	10	11	30	16	18	10	12	19	15	15
Lack of commitment from top management	10	17	24	22	31	15	13	24	7	11	21	10
Lack of manpower to conduct CSR	17	24	19	8	26	22	15	12	18	22	2	20
Measuring the intangible benefits	27	15	15	22	4	16	19	12	9	27	28	11
Lack of acceptance by stakeholders	0	16	30	18	13	18	20	17	35	13	14	11
Lack of publicity though disclosure	4	10	25	10	20	16	13	36	6	33	12	20
Lack of Knowledge about the importance of CSR	2	19	13	27	2	26	7	17	22	14	39	17
Lack of information to guide CSR activities	8	9	5	15	15	26	26	22	22	8	32	2
Getting equal commitment from management	10	12	2	11	13	11	14	6	26	17	44	39

*Source: Survey Data*

The research data analysis proved that difficult to measure intangible benefits as the seventh most crucial challenge with 6.36 as the mean value and 3.68 as the standard deviation value. Shareholders are more concerned about short-term profit making, and they wish to get more profit from their investment. This survey data showed that the lack of shareholder acceptance as the eighth most crucial challenge with a mean of 6.7 and standard deviation 3.02. In this survey, there are a number of corporations that have CSR activities, but they have no disclosure especially the SMEs. This lack of publicity is another challenge to practice CSR.

There are a number of executives who are not properly aware about the importance of corporate social responsibility (CSR). Due to their lack of knowledge, the activities of CSR are not appreciated. This survey, ranked the lack of knowledge as the tenth most crucial challenge for any corporation to practice CSR. Lack of information to guide CSR activities is also another challenge for them to practice CSR, with mean value 5.64 and standard division 3.06. During the personal discussions, executives mentioned that sometimes employees are not clear about the CSR guidelines set by the corporations headquarter. Sometimes, the managers are busy for short term profit-making for his or her business unit, and they forget about long-term business sustainability. They miss the direction of top executives and

CSR plan of corporate responsibility. So, this study had the lack of getting equal commitment from the managers as a crucial challenge to practice CSR. Table 1.2 shows the observation of respondents about the crucial challenge to practice CSR. Sixty six respondents ranked huge financial expenses as the most crucial challenge to practice CSR, whereas only twelve respondents ranked huge financial expenses as the lowest crucial challenge to practice CSR. Simultaneously, only ten respondents ranked getting equal commitment from management as the most crucial challenge to practice CSR, whereas thirty nine respondents ranked getting equal commitment from management as the lowest crucial challenge to practice CSR.

## 6. CONCLUSION

The results show that the initial cost of practicing CSR involves a huge amount of money. This extra cost may raise the cost of product, which creates barriers for them to access local markets. Early studies suggested that the Government's support or tax holidays may allow small enterprises to practice CSR (Wulfson, 2001). Thus, the most crucial challenge to practicing CSR is the huge financial expenses. Getting employees to be involved in CSR activities is the second most crucial challenge. Making a connection with the communities is another crucial challenge for CSR activities also; it takes up more time from the participants. As per this survey, the lack of commitment from the top level management is another crucial challenge to become socially responsible, and the executives also faced the difficulty to manage efficient manpower to conduct responsible business. The earlier researches show that the shareholders are mostly not interested to become socially responsible corporation. They are not interested to spend more for responsible business (O'Rourke, 2003). Thus, it fails to get equal commitment from top to lower level management. A few corporations practice CSR, but they are not able to publicize their activities through disclosure or CSR reporting. The lack of knowledge about the importance of CSR and lack of information to guide the CSR activities is the challenges to become responsible business entities as per the result of this study. In conclusion, it can be said that there are a number of challenges. The crucial challenges include large financial expenses, getting employees' involvement, making a connection with the community, time consuming and lack of commitment from top management.

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