



**Consumer Perception towards Corporate Social
Responsibility on Brand Equity**

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Persepsi Pengguna terhadap Tanggungjawab Sosial Korporat ke atas Ekuiti Jenama

ABSTRAK

Walaupun kerajaan Malaysia terus menggalakkan syarikat untuk menerima pakai amalan tanggungjawab sosial korporat (CSR), keutamaan pengguna dan permintaan terhadap produk dan perkhidmatan yang dianggap beretika dijangka mendorong syarikat untuk menerima pakai program CSR. Pengguna sering dianggap sebagai satu daripada pemacu utama CSR dalam kalangan organisasi, bagaimanapun, tidak banyak yang diketahui tentang kesan CSR daripada persepsi pengguna lebih-lebih lagi dalam konteks masyarakat Malaysia. Tujuan utama kajian ini adalah untuk mengkaji persepsi pengguna terhadap CSR dan kesannya ke atas ekuiti jenama. Kajian ini menyiasat pemacu yang mendorong syarikat untuk menerima pakai amalan CSR dan kesan pengamalan CSR (dimensi – dimensi CSR) terhadap ekuiti jenama. Kajian ini juga dilakukan bagi mengkaji kesan penyederhana (moderator) kesedaran pengguna dan keagamaan terhadap hubungan antara CSR dan ekuiti jenama. Di samping itu kajian ini juga mengkaji kesan ekuiti jenama (yang terhasil daripada amalan CSR) terhadap tingkah laku pembelian pengguna. Setelah meneliti data – data sekunder, kajian ini mengenal pasti enam kategori pendorong CSR, iaitu faktor dalaman organisasi, persaingan dinamik, pelabur institusi, pelanggan, pihak berkuasa kerajaan dan pertubuhan bukan kerajaan. Tiga model CSR telah dikaji dan disintesis untuk menghasilkan model CSR yang dicadangkan, merangkumi enam dimensi iaitu penciptaan nilai, pematuhan undang-undang, pentadbiran yang baik, tugas kebajikan, keprihatinan terhadap tempat kerja dan integriti alam sekitar. Dimensi - dimensi CSR ini telah diuji terhadap ekuiti jenama. Bagi mencapai objektif, kajian ini telah menggunakan pendekatan kuantitatif. Soal selidik telah dihasilkan dan diedarkan kepada sampel yang dipilih dan dikumpulkan bagi analisis dan perbincangan yang berkaitan. Penyelidikan telah dijalankan di 12 negeri di Semenanjung Malaysia, menyasarkan 120 orang dari setiap negeri yang menyumbang kepada sampel 1440 orang, berdasarkan kepada pelan persampelan kuota bagi menyiasat persepsi kumpulan pelanggan daripada masyarakat berbilang kaum di Malaysia. Sejumlah 909 respons yang boleh diguna telah diterima daripada responden. Analisis faktor tinjauan dan analisis kebolehpercayaan telah dijalankan untuk menguji kesahihan dan ketekalan item soal selidik. Hasil kajian menunjukkan bahawa kesemua enam pendorong dapat mempengaruhi organisasi untuk menerima pakai amalan CSR. Bagi kesan dimensi CSR terhadap ekuiti jenama, kajian mendedahkan bahawa penciptaan nilai, pematuhan undang-undang, tugas kebajikan, keprihatinan terhadap tempat kerja dan integriti alam sekitar mempunyai kesan positif terhadap ekuiti jenama. Walau bagaimanapun kajian mendapati tiada bukti yang meyakinkan untuk menyokong kesan pentadbiran yang baik terhadap ekuiti jenama. Oleh yang demikian, 5 hipotesis yang berkaitan dengan dimensi CSR dan jenama ekuiti telah diterima manakala 1 hipotesis tidak disokong. Dari segi kesan penyederhana, kajian mendapati kesedaran pelanggan mempunyai kesan penyederhana (moderating effect) antara hubungan kebajikan dan ekuiti jenama manakala keagamaan mempunyai kesan penyederhana (moderating effect) terhadap hubungan antara pematuhan undang-undang dan ekuiti jenama. Di samping itu, kajian ini juga mendapati bahawa ekuiti jenama (yang terhasil daripada amalan CSR) telah memberi kesan kepada tingkah laku pembelian pengguna yang bermaksud bahawa pelanggan bersedia untuk mempertimbangkan produk dan perkhidmatan daripada organisasi yang mempunyai komitmen terhadap CSR.

Consumer Perception Towards Corporate Social Responsibility on Brand Equity

ABSTRACT

While the Malaysian government continues to encourage companies to adopt CSR practices, consumers' preference and demands for products and services deemed ethical is expected to encourage firms to adopt the CSR agenda. Consumers are often regarded as one of the primary drivers of CSR amongst organizations, however, little is known about the impact CSR has on consumers more so in a Malaysian context. The primary purpose of this study is to examine consumers' perception towards CSR and its effect on brand equity. This study investigates the drivers that motivate firms to adopt CSR and the effect of CSR dimensions on brand equity. The study also investigates the moderating effect of customer awareness and religiosity on the relationship between CSR and brand equity. In addition, the study also investigates the effect of brand equity (resulting from CSR practices) on consumer buying behaviour. Having reviewed scores of literatures, the study identified six drivers of CSR (intra-organizational factors, competitive dynamics, institutional investors, customers, government regulators and non-governmental organization) that were adopted as the antecedents of the study. Three CSR models were reviewed and synthesized which resulted in a proposed CSR model containing six dimensions (value creation, legal compliance, good governance, philanthropical engagements, workplace concerns and environmental integrity). These CSR dimensions were adopted as the independent variables of the study which were tested against brand equity, the dependent variable of the study. To attain the objectives, the study adopted a quantitative approach and questionnaires were developed and distributed to the chosen sample and collected back for relevant analyses and discussions. The geographical scope of the research comprised 12 states in Peninsular Malaysia targeting 120 people from each state contributing to a sample size of 1440 people, based on a quota based sampling plan in order to investigate the views of customers from the multi - racial population of Malaysia. A total of 909 usable questionnaires were used for analysis. The exploratory factor analysis and reliability analysis was undertaken to test the validity and consistency of all questionnaire items. The findings revealed that all the six drivers were able to motivate organizations to adopt CSR practices. As for the effects of CSR dimensions on brand equity, the study revealed that value creation, legal compliance, philanthropical engagements, workplace concerns and environmental integrity were significant predictors of brand equity. However the study found no convincing evidence to support the effect of good governance on brand equity. Hence, 5 hypotheses relating to CSR dimensions and brand equity were accepted while 1 hypothesis was not supported. In terms of the moderating variables, the study found that customer awareness was able to moderate the relationship between philanthropical engagement and brand equity while religiosity only had a moderating effect on the relationship between legal compliance and brand equity. In addition, the study also found that brand equity (resulting from CSR practices) had an effect on consumers buying behaviour which meant that customers were willing to consider products and services from organizations that were committed to CSR.

CHAPTER 1

INTRODUCTION

1.1 Introduction

Corporate Social Responsibility (CSR) is a concept that has attracted worldwide attention and acquired a new resonance in the global economy. While globalization and international trade have given way to tremendous opportunities, it has also opened the door to increased complexities for countries across the globe. This has resulted in the call and urge for enhanced transparency and corporate citizenship and opened the gateway for a culture called CSR which in fact allows for corporations to take on a role in the society, to play the guardian and to show it cares. This is corroborated by Hopkins (2003), that corporations around the world are becoming concern about CSR and are beginning to pay more attention towards shareholders, potential investors, managers, employees, customers, business partners, contractors or suppliers, the natural environment and the communities within which they operate, including governments and non-governmental organizations.

Building brand equity through CSR is not at all about opening a checkbook. It is about starting out with a value oriented philosophy as the foundation blocks of a brand. The consumers of today expect organizations to help change the world, even in the smallest of ways. It is common knowledge that a good brand is a reflection of quality, price, service and attributes of a product that helps to distinguish one product from another. Brand equity refers to the value the customers assign on the brand based on their perception about the price, quality, service and product attributes (Aaker, 1996). All these are factors that make a brand all that more appealing and influences

consumers buying behavior. However, being in the information age customers often explore other factors as well in aiding their purchase decision. Fan (2005) argues that customer buying behaviour is not necessarily based on product and service quality or price perception but also on how ethical the company has performed in manufacturing its products and services.

Thus, it is very important that organizations never underestimate the impact of their social responsibility efforts. Nike has proved through its sweat shop blunder how much damage can be caused just because someone failed to notice the enormity of business ethics (Ferrell et al, 2011). Brand image is affected, people become reluctant to patronize a brand and all these domino effect leads to a downhill on profits and sales.

Business ethics is concerned with the behavior that a business adheres to in its daily dealings with the world. The ethics of a particular business can be diverse. Its application is not only exclusive to how the business interacts with the world at large, but to their one-on-one dealings with their customer (De George, 2009). Simply put, ethics involves learning what is right or wrong and then doing the right thing.

The scope of business ethics lies in the responsibility an organization has towards the society or what is commonly known as corporate social responsibility. Social responsibility is a sub – set and an applied aspect of business ethics. Corporate social responsibility theorists argue that management should incorporate ethics into strategic goals because it is the right thing to do (Wood, 1991). Current research is indicating that integrating ethics into the strategic management process not only is right, but is also the profitable thing to do (Key and Popkin, 1998).

A good brand must provide a positive impact on its owners and users and also ensure there is no negative impact on the general public. It means that brands must contribute positively to society by inserting ethical values, especially in the broader social context. Thus, a positive association of the brand with the general public will result. It is this that paves the way for this research so as to uncover if corporate social responsibility is indeed a meaningful brand enhancing move that can lead to increased brand equity and in the long run improve sales and profitability for organizations line of products.

1.2 Background of the Study

CSR activities matter to society. As a whole, they can help to overcome factors restricting economic growth such as environmental considerations, energy, and fewer children and an aging society and achieve sustainable growth for corporations and society. CSR can allow worry-free consumption by providing safe products and services. It can reduce financial burdens through deregulation and the principle of self responsibility.

There is no single government or single law enforcement body to apply the same laws and regulations to all players. International agreements exist but can easily be ignored in a number of countries. In addition, most developing countries have very comprehensive laws and regulations but lack effective infrastructure and the political will to enforce them. Some developing countries might deregulate their standards or regulations in the fields of environment and labor because they want to attract more foreign capital. Thus business corporations that are operating worldwide enjoy an enormous amount of freedom today.

However, freedom should be followed by responsibility. In the absence of responsibility, globalization itself might come to a dead end. This is one reason why business corporations are now trying to develop CSR policies and also trying to establish internal systems that make it possible to reduce negative impacts and increase the positive influences over external stakeholders.

Drawing from a recent corporate scandal which has been kept out of the mainstream media; Royal Dutch Shell agreed to pay \$15.5 million to the Ogoni people of Nigeria after a 13 year dispute on June 8th 2009. In the early 1990's, Nigerian writer and poet Ken Saro-Wiwa led peaceful protests to fight the pollution of the Niger Delta by oil companies, namely Shell, reports VOA News. The message behind the movement was that Ogoni's people homeland was being heavily polluted by oil spills and toxins released by the burning of byproducts from oil extraction (Mouawad, 2009).

Surprisingly, the above incident hardly caused any impact on the company's sales and profitability let alone affected its brand image or brand equity. Business has been as usual for Shell. This is perhaps attributed to the over reliance of fossil fuel by the society and industries world over that it overshadowed Shell's wrong doings. But that may not be case for other organizations, especially when customer choices are abundant. Take for example the 2008 Chinese baby milk scandal involving Sanlu Corporation, one of China's largest producers of milk products. The company had deliberately added melamine or rather were acting oblivion to the fact that melamine (a chemical derivative) was added into watered down milk to make it appear as having high protein count, all in the name of profitability at the expense of scores of infants

suffering ill health and to an extent even causing the death of six infants (Bristow, 2008).

The New Zealand dairy cooperative Fonterra, which owns a 43% stake in Sanlu, were said to have pushed hard for a full public recall. Although there was an immediate trade recall, Fonterra said that local administrators refused an official recall. Fonterra immediately began consolidating themselves and started media campaigns (as part of its damage control strategy) all over the world assuring the public that Fonterra's milk products under different brand names such as Annum, Anlene and Fernleaf are made from Milk that are sourced from New Zealand and hence are safe for consumption. Fonterra was clearly aware that such incidents can create harsh repercussions to its brand equity. Needless to say, the value of the company plunged as a result of the scandal. On 24 September, Fonterra announced that it had written down the carrying value of its investment by NZ\$139 million (two-thirds), reflecting the costs of product recall and the impairment of the 'Sanlu' brand because of the "criminal contamination of milk" (Bristow, 2008).

One might wonder why highly educated, successful and business savvy corporate professionals at Shell and Sanlu got themselves into such a big and ugly mess. The answer lies in a profound lack of responsibility to the social surroundings and stakeholders.

CSR must be seen as a business strategy that creates value and protects value for both the company and the society. It calls for the shift of attention from shareholders to stakeholders. Instead of focusing on maximizing shareholder returns

alone an organization needs to adopt a pluralist view and ensure that it is also creating value and seen as successful to its stakeholders. It is about harnessing the power of business to create a better world for all of us.

1.2.1. The CSR Landscape in Malaysia

In keeping with the growing importance of CSR around the globe, the Malaysian Government is one of the few in Asia to have pushed the CSR agenda ahead by way of enacting CSR reporting requirements for public limited corporations (PLC) which was implemented in 2007. Bursa Malaysia, a regulatory body governing all PLC's in Malaysia developed a CSR reporting framework in 2006 requiring PLC's to disclose their CSR initiatives. The CSR framework acts as a guideline for Malaysian PLC's in their pursuit of undertaking CSR related commitments. The framework looks at four main focal areas for CSR practice which includes environment, community, marketplace and workplace (Aisha Bidin, 2008). Government – linked companies (GLCs) in Malaysia, which makes up a significant part of the Malaysian economy, too have been encouraged to undertake CSR initiatives based on the “Silver Book” guidelines which were developed and published in 2006 by the Putrajaya Committee for GLC High Performance (PCG). The involvement of GLC's on the CSR front received a further boost in the Tenth Malaysia Plan (2011 – 2015) which urges GLCs to integrate and implement CSR policies while forging public and private partnerships in achieving development goals (Allen, 2012).

The Companies Commission of Malaysia also launched its CSR agenda on 30 June 2009 which aims to instill CSR into the corporate culture of Malaysian businesses and promote good corporate governance (Companies Commission of Malaysia, 2009).

Although, CSR practices are not mandatory for private limited corporations be they big, small and medium businesses, the government has introduced the Prime Ministers CSR Awards so as encourage organizations to adopt CSR whilst ensuring that their CSR efforts do not go unacknowledged or unrecognized. When announcing the launch of the CSR awards in the 2007 Budget Speech, the Prime Minister states that the awards are a means to instill CSR into the corporate culture, “We want to make responsibility for the community part and parcel of our nation’s corporate culture” (Capital Corporate Communications, 2013).

Professional bodies such as the ACCA, a global body of professional accountants, have also been playing an active role in the proliferation of CSR into the fabric of Malaysian business society. In addition to publishing sustainability reporting guidelines as a guide for corporations and publishing series of articles on CSR issues in Malaysia in collaboration with the The Edge, they also host an annual sustainability reporting award entitled Malaysian Environmental and Social Reporting (MESRA) Awards (Aisha Bidin, 2008). All these efforts have surely contributed to a positive CSR environment in Malaysia. However the practice of CSR still has room for growth beyond philanthropy. CSR Asia (2009) conducted an analysis of media reporting and concluded that CSR is still predominantly viewed by many corporations as just philanthropy, knowledge is superficial and partnerships need greater direction and monitoring. At the CSR Sustainability Summit 2011, the Energy, Green Technology and Water Minister, Datuk Seri Peter Chin stated that less 10% of Malaysian companies holistically adopted the CSR agenda. He added that most organizations are aware about CSR and its importance but are not practicing the idea (Allen, 2012).