

**THE RELATIONSHIP BETWEEN CSR PRACTICES, ISO 26000
AND PERFORMANCE AMONG MALAYSIAN
AUTOMOTIVE SUPPLIERS**

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ABSTRACT

The aim of this study is to examine the relationship between CSR practices, ISO 26000, and performance among Malaysian automotive suppliers. A survey through questionnaire was conducted to determine the level of CSR practices, ISO 26000, and performance measurement. 288 sets of questionnaire were successfully collected which indicated a 72% response rate. Structural equation modeling technique was utilized to perform the required statistical analysis of the data survey. In order to test the reliability and validity of the instruments, exploratory factor analysis, reliability analysis, and confirmatory factor analysis were performed. Findings indicate that the relationship between CSR practices and performance were positively and significantly and CSR practices also was positive and significant related to ISO 26000. ISO 26000 was direct positive and significant relationship to performance. Therefore, ISO 26000 mediate the relationship between CSR practices and performance. The results indicate that ISO 26000 could be considered as a partial mediator. The impact of CSR practices implementation on performance increases with ISO 26000 as mediator among Malaysian automotive suppliers. This study also provides a fundamental and direction for automotive practitioners and researchers to improve performance through the implementation of CSR practices and ISO 26000.

**HUBUNGAN ANTARA AMALAN TANGGUNGJAWAB SOSIAL
KORPORAT, ISO 26000, DAN PRESTASI DALAM KALANGAN
PEMBEKAL AUTOMOTIF DI MALAYSIA**

ABSTRAK

Tujuan kajian ini adalah untuk mengenalpasti hubungan antara amalan tanggungjawab sosial korporat, ISO 26000, dan prestasi dalam kalangan pembekal automotif di Malaysia. Satu tinjauan melalui soal selidik telah dijalankan untuk menentukan tahap amalan tanggungjawab sosial korporat, ISO 26000, dan pengukuran prestasi. 288 set soal selidik telah berjaya dikumpul yang menunjukkan 72% kadar tindak balas. Model persamaan berstruktur telah digunakan untuk menguji analisis statistik yang diperlukan dalam data kajian. Dalam usaha untuk menguji kebolehpercayaan dan kesahan instrumen, analisis faktor penerokaan, analisis kebolehpercayaan dan analisis faktor pengesahan telah dijalankan. Dapatan kajian menunjukkan bahawa hubungan antara amalan tanggungjawab sosial korporat dan prestasi adalah positif dan signifikan dan amalan tanggungjawab sosial korporat juga adalah positif dan signifikan untuk ISO 26000. ISO 26000 adalah hubungan yang positif dan signifikan dengan prestasi. Oleh itu, ISO 26000 merupakan pengantara hubungan antara amalan tanggungjawab sosial korporat dan prestasi. Hasil kajian menunjukkan bahawa ISO 26000 boleh dianggap sebagai mediator separa. Kesan pelaksanaan amalan tanggungjawab sosial korporat ke atas prestasi semakin meningkat dengan adanya pengantara ISO 26000 dalam kalangan pembekal automotif di Malaysia. Kajian ini juga menyediakan asas dan hala tuju bagi pengamal automotif dan penyelidik untuk meningkatkan prestasi melalui pelaksanaan amalan tanggungjawab sosial korporat dan ISO 26000.

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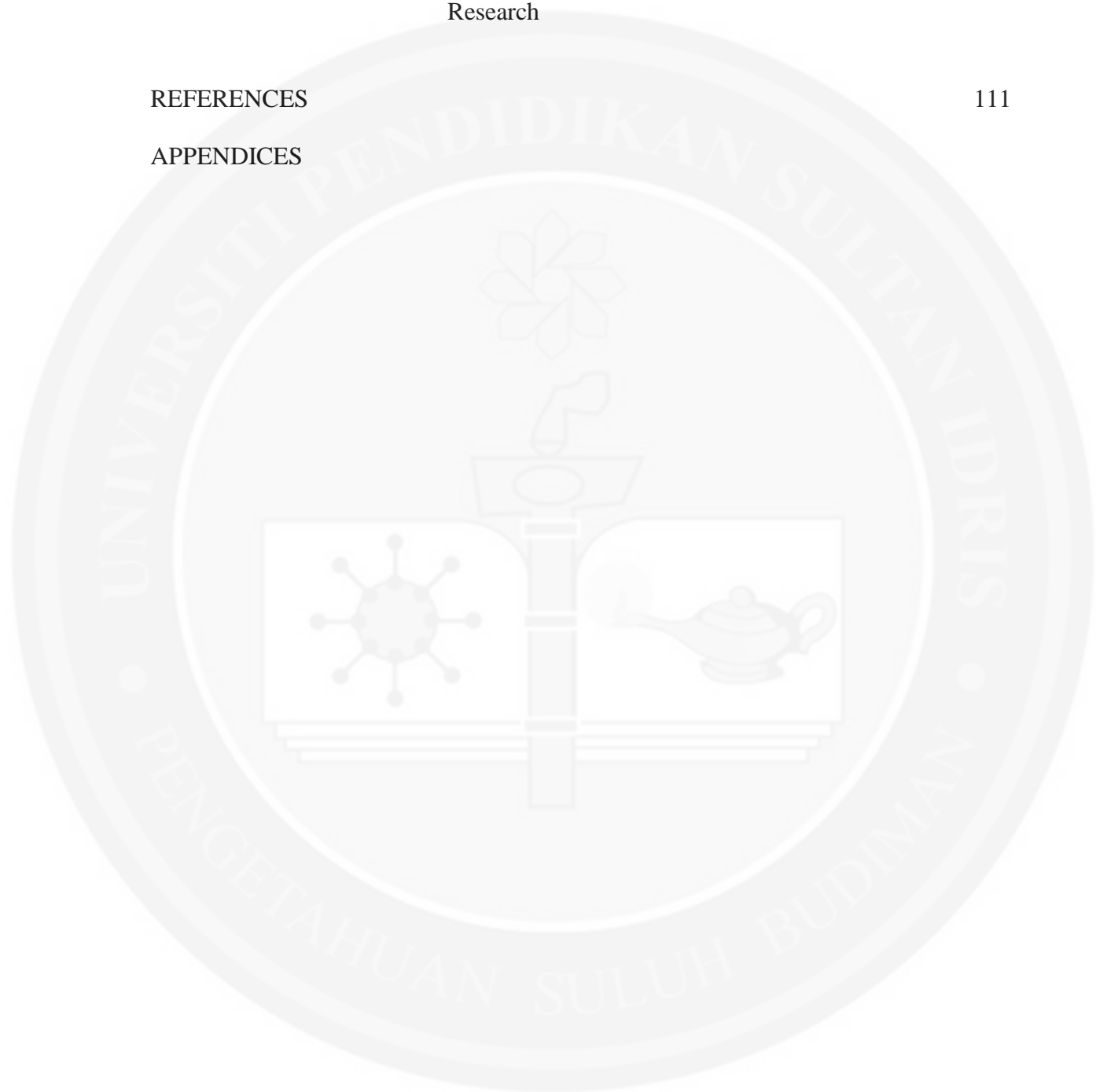
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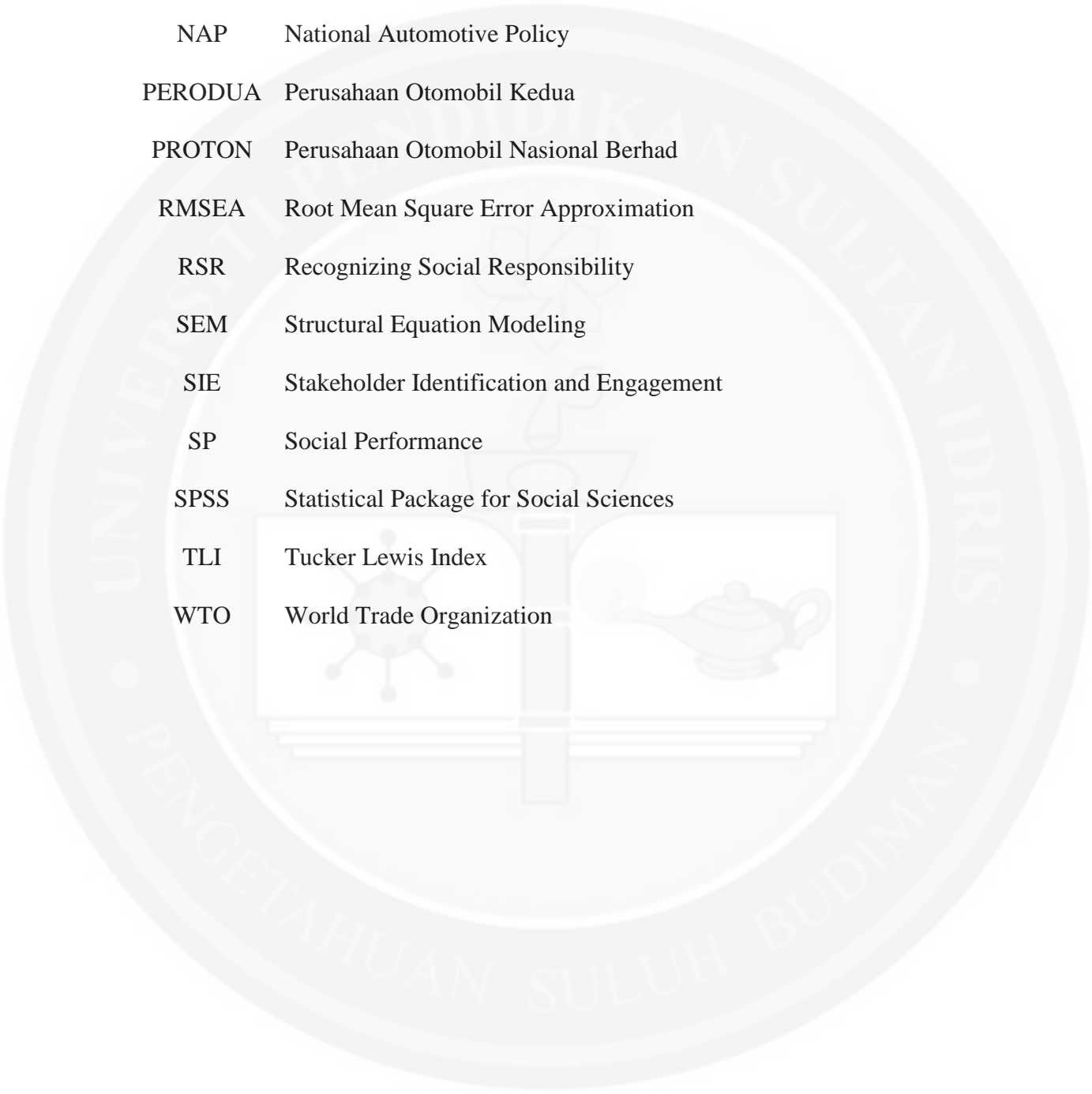
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LIST OF ABBREVIATIONS

AFTA	ASEAN Free Trade Area
AGFI	Adjusted Goodness of Fit Index
AMOS	Analysis of Moment Structures
ASEAN	Association of Southeast Asian Nations
CF	Customer Focus
CFA	Confirmatory Factor Analysis
CFI	Comparative Fit Indexes
CG	Corporate Governance
CS	Community and Society
CSR	Corporate Social Responsibility
CSR P	Corporate Social Responsibility Performance
DE	Direct Effect
EEV	Energy Efficient Vehicles
EFA	Exploratory Factor Analysis
EI	Employee Involvement
EN	Environment
EP	Environmental Performance
GFI	Goodness of Fit Index
HR	Human Right
IE	Indirect Effect
ISO	International Organization for Standardization



KMO	Kaiser Meyer Olkin
MA	Management Accounting
MITI	Ministry of International Trade and Industry
NAP	National Automotive Policy
PERODUA	Perusahaan Otomobil Kedua
PROTON	Perusahaan Otomobil Nasional Berhad
RMSEA	Root Mean Square Error Approximation
RSR	Recognizing Social Responsibility
SEM	Structural Equation Modeling
SIE	Stakeholder Identification and Engagement
SP	Social Performance
SPSS	Statistical Package for Social Sciences
TLI	Tucker Lewis Index
WTO	World Trade Organization

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H-1	First Page: International Journal of Accounting and Financial Reporting
H-2	First Page: International Journal of Economics, Finance and Management
H-3	First Page: International Journal of Business Excellence
H-4	First Page: International Journal of Managerial and Financial Accounting
H-5	First Page: International Journal of Critical Accounting
I	Conference: List of Participation
I-1	Fourth International Conference on Social, Development and Environmental Studies
J	List of Award
J-1	Bronze Award: Audit Quality Engineering and Management System (AQEMS): Eco-Design Decision Making Process

CHAPTER 1

INTRODUCTION

1.1 Background of Research

Automotive industry is one of the main pillars of the Malaysian economy as well as most important manufacturing industries in this country. The automotive industry plays a vital role in developing and expanding support to suppliers in order to enhance production and automotive manufacturing. Recently, Malaysian automotive industry has been a major manufacturer and exporter of vehicle spare parts, components, and accessories in the region. Besides, the automotive industry has reached capacity and efficiency in the design of components for original equipment and replacement markets.

Malaysian government promotes the Malaysian automotive industry to meet the government's efforts to improve the country's economy sector. However, the automotive suppliers are facing challenges due to increase production of competitors from both local and foreign car in Malaysian automotive industry (Habidin & Yusof, 2012). In 2013, Malaysia had expected to invest RM2 billion in the automotive suppliers for further manufacturing and development in the ASEAN region (Damodaran, 2013). The researcher chose the automotive companies as the study because Proton and Perodua automotive suppliers have built up a large share of the domestic market and car manufacturer sales comprising Malaysian automotive suppliers (Malaysian Automotive Association, 2013). Besides, Malaysian automotive suppliers concerned about the quality and performance measurement in this sector (Zakuan, Yusof, & Shamsudin, 2007). Thus, the automotive suppliers bring great opportunity for automotive manufacturers to increase production and distribution operations in the country.

The National Automotive Policy (NAP) aims to implement optimal transformation and integration of national industry in the regional and global industry network. For this research purpose, the six objectives of the NAP 2014 are to encourage the competition in the local industry including national car, make Malaysia the regional hub in Energy Efficient Vehicles (EEV), promote value-added activities, improve the exports of vehicles and auto components, encourage the participation of Bumiputera companies in the domestic auto industry, and safeguard customer's interest by offering better quality products (Ministry of International Trade and Industry [MITI], 2014). Based on that, NAP has reviewed the new investment, the

long-term sustainability of the domestic automotive industry, ensuring quality of products, and environmental protection.

Corporate social responsibility (CSR) practices are now becoming a common term in the local and global business communities. CSR practices involve activities carried out by the management for corporate responsibility by creating corporate benefit for the automotive suppliers. According to Alvarez, Lorenzo, Dominguez, and Sanchez (2010), CSR practices reflect great success for the company to expand its products and technologies to be implemented in the automotive suppliers.

A few studies have been conducted on the implementation of CSR practices among automotive suppliers. For example, Martinuzzi, Kudlak, Faber, and Wiman (2011) pointed out that car suppliers involved in CSR activities emphasize the responsibility given by the supplier in terms of products, labor codes of conduct, and environmental management. Furthermore, CSR practices in the automotive suppliers consist of a variety of major issues in the production, use, and disposal phases. Hence, automotive suppliers should emphasize CSR practices among Malaysian automotive suppliers.

In relation to that, Yilmaz (2008) explored and investigated the current status of CSR practices in the automotive companies. These findings are useful in order to define the level of corporate sustainability and corporate social responsibility, awareness, and practical application of CSR practices among automotive companies, investors, and regulators. Therefore, CSR practices can be implemented by Malaysian

automotive suppliers in order to improve and expands its market share with a good reputation and ensure maximum profitability and enhance corporate growth.

Min (2010) explores the role of business ethics and CSR practices among Malaysian managers in relation to the implementation of ISO 26000. The findings show that there is still a lack of knowledge and experience in implementing tools to engage in social responsibility, especially any of the well-recommended social responsibility initiatives. Based on this study, a lack of awareness and method of engagement in social responsibility initiatives seemed to be the most significant obstacles in implementing ISO 26000 social responsibility engagement.

Therefore, it is necessary for an organization to understand and measure their performance improvement in corporate social responsibility performance (CSRP) perspectives which aim to address the social and environmental aspects (Chen & Delmas, 2010; Chang & Deegan, 2010; Purnomo & Widianingsih, 2012). Loureiro, Sardinha, and Reijnders (2012) highlight that CSRP needs to improve environmental performance in the automotive suppliers. In fact, the measurement would be used in developing a model to assess strategic performance for automotive supplier in their pursuit towards enhancing their business competitiveness and excellence.

By improving CSR practices, companies can implement ISO 26000 as the guideline for social responsibility in order to enhance the performance for Malaysian automotive suppliers. Thus, it is hoped that the relationship between CSR practices

and ISO 26000 can contribute to the automotive suppliers in order to increase the CSRP among Malaysian automotive suppliers.

1.2 Problem Statement

Malaysia provides many opportunities for the global automotive industry to build operations and manufacturing especially for Malaysian automotive suppliers. Malaysia has built a real image of a national car manufacturer within the global automotive industry over the last two decades (Talib, Munisamy, & Ahmed, 2012). However, by enhancing globalization under ASEAN Free Trade Area (AFTA) and World Trade Organization (WTO), the government has faced an increasingly strong pressure to liberalize Malaysian automotive suppliers. Therefore, to reduce the failure of the quality initiative, one of the NAP objectives needs to be achieved which is to promote the competitiveness of the local industry including national car production, particularly for Malaysian automotive suppliers.

CSR practices increase because many industries recognize CSR practices in order to improve the company's performance in Malaysia (Perumal, Othman, & Mustafa, 2013). In this study, it is important for Malaysian automotive suppliers to concern on CSR practices in terms of reduce cost, quality, and environmental. Ministry of International Trade and Industry (2014) mentioned that the issues of the domestic automotive industry are to meet global quality, cost, and environmental requirements. According to Perodua's Year of Transformation (2014), Perodua

concerned about the cost and the environmental impact in the industry. At the same time, Perodua aims are to reduce the cost and increase the quality and performance of this industry. Thus, CSR practices can be implemented among Malaysian automotive suppliers due to provide improvement on cost and to enhance CSRP.

To meet the requirement of CSR practices, ISO 26000 should be concerned among Malaysian automotive suppliers. ISO 26000 provides a guideline for businesses and organizations to operate in a socially responsible way. However, as ISO 26000 is a new global initiative, there is still a lot to learn from the adoption and implementation of ISO 26000 (Castka & Balzarova, 2007; Sully, 2012). A review of the literature identified a lack of study especially on the effects of ISO 26000 (Min, 2010; Hahn, 2012). The implementation of ISO 26000 will provide the guidelines for Malaysian automotive suppliers in order to increase the CSR practices and CSRP. Hence, the demand for ISO 26000 is required for the automotive suppliers in order to increase CSRP, particularly among Malaysian automotive suppliers.

Several previous researchers (Roberts, 2010; Hoivik, 2011; Sitnikov & Bocean, 2012) studied about the implementation of CSR practices and ISO 26000. Nevertheless, there is still a lack of research related to the implementation of CSR practices and ISO 26000 simultaneously and also research related to CSRP. In this study, there is a lack of research which investigates the relationship between CSR practices, ISO 26000, and CSRP, especially among Malaysian automotive suppliers. Therefore, the aim of this study is to examine the relationship between CSR practices, ISO 26000, and CSRP among Malaysian automotive suppliers. CSR practices, ISO

26000, and CSRP have become important for Malaysian automotive suppliers in order to achieve the success and sustain the quality improvement involving local car manufacturers and automotive suppliers.

1.3 Research Questions

There are four research questions to be addressed in this research:

1. Is there any significant relationship between CSR practices and CSRP among Malaysian automotive suppliers?
2. Is there any significant relationship between CSR practices and ISO 26000 among Malaysian automotive suppliers?
3. Is there any significant relationship between ISO 26000 and CSRP among Malaysian automotive suppliers?
4. Is ISO 26000 mediates the relationship between CSR practices and CSRP among Malaysian automotive suppliers?

1.4 Research Objectives

The objectives of this study are to identify the CSR practices constructs, ISO 26000 constructs, and CSRP measures for Malaysian automotive suppliers and to analyze the relationship between CSR practices, ISO 26000, and CSRP for Malaysian automotive suppliers.

In order to achieve these aims, this research has four main objectives, which are as follows:

1. To examine the relationship between CSR practices and CSRP among Malaysian automotive suppliers;
2. To examine the relationship between CSR practices and ISO 26000 among Malaysian automotive suppliers;
3. To examine the relationship between ISO 26000 and CSRP among Malaysian automotive suppliers; and
4. To examine the relationship between CSR practices and CSRP among Malaysian automotive suppliers through the acting of ISO 26000.

1.5 Significance of the Study

This study examines the relationship between CSR practices, ISO 26000, and CSRP among Malaysian automotive suppliers. In terms of the theoretical aspect, ISO 26000 is as a mediating variable in the relationship between CSR practices and CSRP. The identification of ISO 26000 is significant for the performance of automotive suppliers based on the CSR practices theory. This study has been provided with the empirical evidence and validation which would make it generally applicable for CSRP measurement. The developed and tested content of this study fills the research gap by providing a reliable and useful reference material on the critical factors of CSR practices implementation and ISO 26000 on CSRP.