

An Analysis of Corporate Social Responsibility (CSR) on Stakeholders Loyalty: Perceptions of Malaysian Organizations

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ABSTRACT

The purpose of this paper is to explore the relationship between Corporate Social Responsibility (CSR) and stakeholder loyalty to the Malaysian organisations. Stakeholder satisfaction was used to measure the mediating effects between CSR and stakeholder loyalty. A developed CSR items were used to measure the CSR of an organisation. The research was conducted using online survey to reach 377 organisations that have CSR's initiatives. Results showed that Malaysian stakeholders were loyal with organisations that have CSR. Stakeholder satisfaction also found to fully mediate the relationship between CSR and stakeholder loyalty. Furthermore, a constructive CSR dimension(s) would be better to measure the stakeholders' relationship. Importantly, the study shows the importance of CSR towards stakeholder loyalty. Once the needs are more clearly identified and understood, organisation will be in a better position to also anticipate stakeholders' satisfaction in order to gain loyalty from the stakeholders.

Key words: Corporate Social Responsibility (CSR), stakeholder satisfaction, stakeholder loyalty, Malaysia

1. Introduction

Corporate Social Responsibility (CSR) in Malaysia has gradually gained momentum. Improved awareness of social responsibility and sustainable development on the part of stakeholders is encouraging Malaysian organizations to improve their alignment with global management practices. In a recent study on experts' views and perspective of CSR in Malaysia, Lu and Castka (2009) found that the CSR concept is not entirely new to Malaysia. In Lu and Castka's study, they observe that the major local organizations, as well as multinational corporations (MNC) are the major players in CSR implementation in Malaysia. These organizations use CSR as a public relations tool and some of them tend to use charity donations as a mechanism to enhance their public relations practice. CSR has also been adopted by certain firms based on considerations regarding cost reduction, investments in quality management, human resource development, and product and corporate branding (Wad and Chong, 2008). Organizations do aware that CSR provides them some benefits.

In addition, the stakeholder theory suggests that a company's actions demand to all shareholders, from bottom to top, including a member of a family, community, and country (Handelman and Arnold, 1999). Building on this, Daub and Ergenzinger (2005) put forward the term 'generalised customer' to signify people who are not only customers who care about the consumption experience but also actual or potential members of various stakeholder groups that companies need to ponder. Consequently, such generalised customers are likely to be more satisfied by products and services that socially responsible firms (as opposed to their socially irresponsible counterparts) offer. Undoubtedly, Lichtenstein, Drumwright, and Bridgette (2004:17) note that 'a way that CSR initiatives create benefits for companies appears to be by increasing consumers' identification with corporation... [and] support for the company'. However, the overall perceptions and expectations of stakeholders are ambiguous, and the participation of Malaysian firms in international indexes and CSR contests is in contrast to other firms, which may well be due to the overall weaknesses of CSR implementation in Malaysia. This is an important observation in terms of CSR development, especially for the stakeholders' relationship.

This study attempts to examine CSR and stakeholders' relationship. The research objectives are thus stated as followed: 1.) to examine the relationship between CSR and stakeholder satisfaction; 2.) to examine the relationship between CSR and stakeholder loyalty; and 3.) to specifying the mediating role of stakeholder satisfaction linking CSR to stakeholder loyalty. To meet the objectives of the study, first the paper begins with a review of the literature on CSR and stakeholders' relationship (i.e. satisfaction and loyalty). This is followed by an outline of the methodology approach and the results of the study are reported. Finally, discussion and conclusion are discussed.

2. Literature review

In this section, first it begins with a review of CSR in Malaysia. This followed by reviews on CSR, stakeholder satisfaction and stakeholder loyalty.

2.1 CSR in Malaysia

Malaysia is a typical developing country which has undergone substantial structural changes in recent years. This developing country has been categorized in the upper middle-income level by the World Bank. Geographically, Malaysia is situated bordered by Thailand in the north, Indonesia in the south, and the Philippines in the east. The strategic importance of Malaysia is in its location along the Strait of Malacca, which is a major, sea-route connecting the Far East to Asia, Europe, and the Middle East. Nevertheless, a challenge hit the Malaysian economy during the Asian Financial crisis in 1997. Before the crisis, Malaysia was on the list of the most promising developing economies in the world as its continual growth rate exceeded 8% up to 1996 with an impressively low inflation rate. However, when the 1997 financial crisis hit the Malaysian stock market until it plunged to an historical low of 262 points from the height of 1077 on 1st September, 1997, Malaysia experienced a negative growth rate in 1998 (Barro, 1998).

According to some researchers, the main cause of the crisis was poor corporate practices and management among Asian countries (Claessens and Fan, 2003). The impact of the financial crisis and concerns about corporate scandals awakened the Malaysian government to the need to reinforce CSR. Thus, the developments of CSR reform in Malaysia have been subsequent to the 1997 East Asian financial crisis. Since the 1997 financial crisis, the government and government-linked institutions and corporations have appeared to promote the CSR agenda. As a consequence, businesses have gradually begun to perceive CSR as a value-added strategy in enhancing corporate reputation and financial performance. Many organisations started to incorporate CSR elements in their business strategies to stay competitive. Thus, CSR has been given more emphasis by Malaysian organisations and they have integrated CSR into all aspects of their businesses (Lu and Castka, 2009).

Nevertheless, the Malaysian government efforts at promoting Malaysian compliance to CSR is demonstrated in their comprehensive current regulatory framework, best practices and establishment of institutions for continual growth. The Prime Minister, Datuk Sri Najib Tun Razak has advised businesses to embrace CSR and conform to ethical standards when making decisions in business. He wants corporations to consider the interests of society and the environment as well as their own economic well-being (Najib, 2004). In relation to this, in Chapter 25 of the 9th Malaysia Plan that covers the period from year 2006 to 2010, government has made an effort to complement regulatory enforcement. The elements of CSR have been incorporated in Malaysian legislation for quite sometimes for example the Environment Quality Act (1974), the Anti-corruption Act (1977) and the Human Rights Commission of Malaysia Act (1999). Recently, there have been growing numbers of CSR initiatives by Malaysian organizations. An established organization, the Minority Shareholders Watchdog Group (MSWG) serves to strengthen corporate social responsibility by conducting awareness programmes to encourage adoption of the Code by private companies and to develop its own code of ethics. Moreover, the establishment of the Business Ethics Institute of Malaysia (BEIM) has also helped to inculcate ethical integrity among Malaysian businesses.

Furthermore, the CSR Framework launched by Bursa Malaysia in September 2006 has provided useful guidance for Malaysian public listed companies (PLC) to assist them to develop meaningful CSR agendas, policies and initiatives. This valuable initiative may influence companies' reports on financial performance. Furthermore, the emergence of non-governmental organizations (NGO) such as the Consumer Association of Penang (CAP), the Federation of Malaysia Consumers Association (FOMCA) and the UN Global Compact in Malaysia has also contributed to this awareness (Ramasamy and Yeung, 2007).

Previous research revealed that the number of Malaysian organisations participating in CSR is fairly consistent. The human resources theme was the theme most frequently disclosed by Malaysian organizations. Jamil, Alwi and Mohamed (2002) found that companies from construction, hotels and finance contributed a higher percentage of corporate disclosure than other industries such as consumer, industrial products, mining, plantation, property, trading, and services. In relation to this, Yam and McGreal (2010) in their study examined CSR from housing developers' perspective, confirmed that there are significant changes in the housing development trends. According to them, there is an increase of the CSR awareness in Malaysia, and house buyers are now becoming more affluent.

In addition housing developers also incorporate CSR elements into their housing projects in order to improve their business competitiveness. This is in line with Jamil *et al.*'s (2002) that stakeholders such as housing developers from the construction industry need to be competitive in today's market economy. They need to be socially responsible and sensitive to the interest of other stakeholder (e.g. house buyers) which includes caring about the environment and society in general. Consumer and industrial products had less CSR disclosure, perhaps due to buying behaviour. Nik Ahmad (2003), in his survey of Malaysian consumer purchasing behaviour, found that 85 percent of respondents cited price and quality of products as the most important influencing factor and only 3 percent considered a firm's CSR activities as an important factor in their buying decisions.

However, there is an increase in demand for all industries to address CSR concerns, and businesses which are not socially responsible are losing advantage to their competitors and are pressured by various stakeholders (Cleghorn, 2004; Dirks, 2004). As such, an organisation which responds proactively to public issues and manages its environment with sensitivity will tend to gain public support (Roper, 2005).

On the other hand, if organizations are pushing aside the issues of CSR, these issues may in turn come back to haunt the organisation (Pesqueux and Damak-Ayadi, 2005), as pressure on them comes from certain groups (e.g. industry supply chain, public groups) who become aware of improper social and environmental effects of their operation (Tee, Roper and Kearins, 2007). Given the increasing amount of stakeholders' pressure, including introducing mandatory disclosure or reporting requirements for organisations by the government, the increase in international standards of business and access to international equity capital and investments, industry in Malaysia should not continue to resist serious engagement in corporate social responsibility.

2.2 CSR and stakeholder satisfaction

Operationally, satisfaction is similar to an attitude, as it can be accessed as the sum of the satisfactions with the various attributes of the product or service (Churchill and Surprenant, 1982). However, while attitude is a pre-decision construct, satisfaction is a post-decision experience construct (LaTour and Peat, 1979). Satisfaction can be considered at two levels: the transaction or encounter level and overall satisfaction (Bitner and Hubbert, 1994). The expectancy/disconfirmation paradigm in process theory provides the grounding for the majority of satisfaction studies and encompasses four constructs: 1) expectations; 2) performance; 3) disconfirmation; and 4) satisfaction. Disconfirmation arises from discrepancies between prior expectations and actual performance. There are three possibilities: zero disconfirmation can result when a product performs as expected; positive disconfirmation can occur when the product performs better than expected; and negative disconfirmation when the product performs below expectations (Yi, 1990).

In the context of stakeholder satisfaction, customers may look for reliability and excellence of the product or service, whereby investors and suppliers demand for credibility meanwhile communities expect responsibility on the part of the company (Fombrun, 1996). Taking this idea into account, CSR, understood in a broad sense can influence stakeholders when evaluating the product and services that the firm provides to them. The perception of socially responsible behaviour can strengthen their commitment towards the firms. On the other hand, some studies have revealed that a large number of consumers claimed to be more willing to buy products from companies involved in social causes (Jones, 1997).

Strong, Ringer and Taylor (2001) believed that one of the keys to develop stakeholders' satisfaction is by investing in community and relationship-building activities on a consistent basis. Moreover organisation must make every effort to perform according to expectation. Besides that, when stakeholders have a sturdy sense of community, it appears they distinguish higher levels of responsibility for each other's wellbeing and satisfaction. For example when managers foster a sense of community through honest communication, employees receive equitable treatment, customers feel that they 'belongs' with the company as a result of personalised attention, and they generate a system that perpetuates its own satisfaction. Strong *et al.*, (2001) suggested that managers are competent to satisfy several stakeholder groups concurrently by communication in a timely, honest and compassionate approach. Such behaviour clearly illustrates crucial mechanism of procedural fairness, justice (Leventhal, Karuza, Fry & Mikula, 1980) and CSR. This helps to explain how stakeholder satisfaction within an organisation can be maintained.

In addition, the existing marketing literature shows an evidence for the influence of customer satisfaction on customer loyalty. Customer satisfaction (Anderson and Sullivan, 1993) is considered the predominant antecedents of consumer loyalty (Nguyen and Leblanc, 2002). This explains why customers reward CSR efforts with loyalty towards the company (Maignan, Ferrell and Hult, 1999). Indeed, several studies also explains why CSR activities have been adopted by firms based on growing evidence that consumers are willing to give incentives to socially responsible corporations (Nelson, 2004; Sen and Bhattacharya, 2001). Margolis and Walsh (2003) also have pointed to the impact of CSR on multiple stakeholders (e.g., employees, investors and consumers). It should be clear that as CSR becomes more important, the relationship between stakeholder satisfaction and corporate loyalty is a topic that deserves the attention of the marketing researcher. That is, CSR affects stakeholder satisfaction, which in turn affects corporate loyalty (Bhattacharya and Sen, 2004; Liu and Zhou, 2009).

2.3 CSR and stakeholder loyalty

Previously, service management literature also proposes that customer satisfaction influences customer loyalty, which in turn affects profitability. Proponents of this theory include researchers such as Schneider and Bowen (1995) and Zeithaml, Berry and Parasuraman, 1996). They demonstrated that customer satisfaction is the result of customer's perception of the value received in a transaction or relationship. This shows that satisfaction is relative to the value expected from transaction or relationship from the providers. On the other hand relevant literature is also found in the marketing domain regarding the impact of stakeholder satisfaction on stakeholder loyalty. Yi (1990:104) concluded that 'many studies found that customer satisfaction influences purchase intentions as well as post-purchase attitude'. In relation to this, present research believe when CSR is managed effectively, transparent and honest performance mistakes need not lead to dissatisfaction among stakeholders.

Given this, stakeholders could feel a strong sense of loyalty to their own and other stakeholder groups. As a consequence, putting the pieces together, this study is making some important additions. In adding CSR to Liu and Zhou (2009) model, this study has predicted a mediating role of stakeholder satisfaction on the impact of CSR on stakeholder loyalty. Therefore, empirical work in this research is likely to provide a complementary it to the previous model and yield research in marketing research.

3. HYPOTHESES, DATA, AND METHODOLOGY

Based on stakeholder theory (Freeman, 1984), the framework argues that CSR will improve stakeholder relationships through their effects on holistic-relation. The theoretical rationale for the model draws upon CSR appears to be importance and create more values for most companies (Gugler and Shi, 2009). Bhattacharya and Sen (2004) also point out firms' with CSR actions would ultimately promote performance-enhancing behaviours, for example the customer loyalty. However, based on Liu and Zhou's (2009) conceptual model, it is less clear whether CSR affects this kind of stakeholders' relationships. If a theoretical model linking CSR to stakeholder relationships were to become established it might provide the means to evaluate importance model of CSR-stakeholder relations. Such a model might be used to understand why and how CSR is importance to stakeholder. The proposed model examined in this study as well as hypotheses relating them which predicts that; (1) a dominant paradigm of CSR will contribute to a greater stakeholders' loyalty, (2) a dominant paradigm of CSR will contribute to a greater stakeholders satisfaction and (3) stakeholder satisfaction is mediates relationship between CSR and stakeholders loyalty. Therefore,

Hypothesis 1: Corporate Social Responsibility (CSR) have positive link with stakeholder loyalty.

Hypothesis 2: Corporate Social Responsibility (CSR) have positive link with stakeholder satisfaction.

Hypothesis 3: The greater the level of stakeholder satisfaction, the stronger is the positive link between Corporate Social Responsibility (CSR) and stakeholder loyalty.

3.1 Sample and Data

For the present research, the target population comprises selected Malaysian stakeholders. Malaysian stakeholders were chosen because according to the literatures, Malaysia is one of developing country in Asia which seriously implementing CSR. The CSR become a national agenda. Therefore, it is rational to assume that CSR have received good attention and awareness from Malaysian stakeholders (i.e., the internal and external stakeholders). The target population comprised stakeholders from the public listed companies (PLC), government

link companies (GLC), government, consumer-goods and services; and non-governmental organisations (NGOs). The selection of the various respondents was made based on the following definition of stakeholder groups: 1. Managers: Top level managers comprising CEOs, senior executives, higher officer or presidents of the PLCs, GLCs, government agencies and NGOs; 2. Employees: All employees at various organisational positions and levels of the PLCs, GLCs, government agencies and NGOs, excluding top level managers; 3. Consumers: Customers from the goods and service industries. Only these stakeholders groups were selected for this study, for two reasons. The first reason was to achieve an ideal sampling frame, as time and resources were constraints in this study. The second reason was to gain access to information on respondents, and managers, customers and employees are accessible from the point of view of obtaining data.

In this study 377 individual stakeholders with email address have been contacted and 172 have managed to answer the online survey. Response rate is about 45.62%. The 172 responses from the survey answer were examined for studies that used factor analysis as an exploratory analytical technique. Every response in the web base was printed and reviewed inclusively. Response were decided to eliminate from the sample if the respondent is not complete all survey section. Overall only 142 responses were found usable and proceed for the analysis and the actual response rate is 37.77%.

Table 1 indicate government link-company contribute a larger response because most of them had their formal academic until postgraduate level. Therefore, most of them may have a good understanding on the English language [Note: the questionnaire is not translated into Malay language]. Besides that, this sample of respondents is from the white collar employment and high-tech as it has been discovered before during pilot study as they are the group of potential respondent that are constantly utilised and gain access to the internet, as they need to participate in this survey via online.

Table 1 Demographic Study

Age		Education		Sex		Income		Industry	
Category	N (%)	Category	N (%)	Category	N (%)	Category	N (%)	Category	N (%)
<30	27 (19)	Secondary	3 (2.1)	Male	57 (40.1)	< RM1000	5 (3.5)	G	33 (23.2)
30-50	111 (78.2)	Graduate	62 (43.7)	Female	85 (59.9)	RM1000-2500	22 (15.5)	PLC	25 (17.6)
>50	4 (2.8)	Post-graduate	77 (54.2)			RM2501-4000	54 (38)	GLC	49 (34.5)
						>RM4000	61 (43)	C	17 (12)
								NGO	18 (12.7)
Total	142		142		142		142		142

Note:

G-Government; PLC-Public listed company; GLC-Government linked company;

C- Consumer; NGO- Non-governmental organisation

Having established to the different factorial structures with different items, the 95 items that made up the CSR sample were subjected to PCA using SPSS Version 17. Moreover, in order to confirm the mediational roles played by stakeholder satisfaction, a hierarchical model test was performed using Partial Least Square. (i.e. PLS-Graph version 3.0)

4. ANALYSIS AND RESULT

The Suitability of factor analysis for the sample was confirmed by a Kaiserr-Meyer-Olkin (KMO) value of .814, which is quite above the recommended value of 0.6 (Kaiser, 1970). Kaiserr-Meyer-Olkin (KMO) values closer to 1.0 are better (Kaiser, 1970; as cited by Meyers, Gamst and Guarino, 2006). Meanwhile, the Bartlett's Test of

Sphericity (Bartlett, 1954) was highly significant ($p < .000$). The correlation matrix also revealed many coefficient values of above 0.3.

The PCA revealed twenty-one eigenvalues exceeding 1, and the cumulative variance is 58.43%. Communalities were estimated using squared multiple correlations. Inspection of the scree plot indicated that the magnitude of Eigenvalues tapered off after the three factors. The scree plot result do not clearly supports the extraction of current factors. Therefore, the decision was made in the present stage to submit only the meaningful factor to PCA before retaining these items. The following criteria were used to identify meaningful factors underlying the items: a) retain items with communalities which are high (>0.6) and the factors are well defined (have many large loadings). Retaining items with higher communalities is an absolute minimum for newly developed measures (Hinkin, 1998). Besides that sample sizes of 100 are often adequate to identify meaningful factors underlying the items (Reise, Waller and Comrey, 2000), b) retain only those components with an Eigen values of greater than 1, c) include all items with structure coefficient with an absolutely value of 0.30 or greater; and d) retain factors that were interpretable.

After the above criteria were taken into consideration the 50 items were subjected to PCA to further determine the dimensionality of these items. Table 2 shows the descriptive statistic for the output. Mean^a are the means of the variables used in the factor analysis. Meanwhile, SD^b are the standard deviations of the variables used in the factor analysis and N^c is the number of cases used in the factor analysis.

Table 2 Descriptive Statistics

No.	Item	Mean ^a	SD ^b	N ^c
32	induces products and services innovation	2.1690	0.74350	142
57	smoothes business operations	2.3521	0.84381	142
78	overcomes business problems	2.6268	0.91178	142
31	provides safe and healthy products in the market	2.1972	0.74605	142
27	requires company to provide high-quality products to its customer	2.2394	0.80715	142
62	increase the value of the products	2.1831	0.79555	142
58	helps a company to easily market their products and services	2.0634	0.73624	142
34	believes in customer satisfaction	2.0986	0.76548	142
70	helps a company to its achieve target	2.2465	0.78267	142
71	is company's innovation	2.1056	0.71168	142
72	ensure consumer are not cheated	2.4296	0.91013	142
18	helps ensure that employees are offered a reasonable salary	2.6549	0.93054	142
61	increase the value of the intangible products	2.0915	0.76172	142
95	concern fair layoffs	2.2535	0.66776	142
94	concern fair compensation	2.1901	0.67302	142
82	positions products profitably	2.2183	0.70576	142
89	increases product safety and healthy	1.7535	0.79168	142
84	helps company to manage their procurement	2.2254	0.62336	142
85	supports a firm infrastructure	2.1972	0.61007	142
93	protects local certified food	2.2465	0.72627	142
88	concerns better labour relation	2.1479	0.60667	142
92	concerns diversity and non-discriminations	2.0915	0.61776	142
85	promotes a firm technology development	2.1761	0.63357	142
52	provides a social values to the company	1.8028	0.57414	142
56	creates a good company portfolio	1.7676	0.73093	142
54	makes a company to be outstanding	1.9155	0.62448	142
50	creates a sense of belonging	2.0282	0.69388	142
53	encourages a company to be more creative	1.9366	0.70675	142
60	increase the value of the company	1.9577	0.67239	142
78	creates good culture in society	1.8310	0.69417	142
44	helping social-awareness amongst public	1.8873	0.74471	142
43	creates honest, responsible, ethical and generous people	1.9859	0.70445	142
67	helps shape human behaviour	2.1761	0.79269	142
45	is against the child abuse	2.1197	0.78535	142
63	protect the natural resources	2.1268	0.76129	142
73	overcomes social problems	2.4296	0.89441	142
91	provides a healthy working environment	2.0211	0.73868	142
19	supports recycling	2.0704	0.63746	142
38	promotes a company pays its taxes on a regular and continuing basis	2.3028	0.82505	142
39	encourages company to follow government regulations	2.1972	0.72679	142
42	helps people change their attitude	2.0986	0.82780	142
1	contributes to company profits	2.2113	0.81503	142
2	is an activity that attracts customers	1.8944	0.69147	142
24	helps the management with a competitive strategies	2.1338	0.80096	142
13	encourages its employees to become involved in social activities voluntarily	1.8380	0.74982	142
10	gives back to society to improve the quality of life	1.7042	0.71249	142
16	improves the quality of employees' lives	2.2535	0.86243	142
22	encourages its employees to develop their skills and careers	2.1197	0.83778	142
30	provides accurate information to all	2.3873	0.79759	142
37	is a contribution of talent according to the needs of society	2.1549	0.77456	142

The suitability of factor analysis for the sample was again confirmed by a Kaiser-Meyer-Olkin (KMO) value of 0.893.

There are two main strands in the literature on the effect of CSR on loyalty: the direction of the relationship between measured CSR and stakeholder satisfaction and the magnitude and statistical significance of that relationship. CSR had a significant effect on stakeholder loyalty ($\beta = 0.343$, $p < 0.01$). Thus, this study found support for H1. Supporting Hypothesis 2, CSR also had a significant effect on stakeholder satisfaction ($\beta = 0.738$, $p < 0.001$). The collective results obtained in the test of this hypothesis indicate support for H2. Both H1 and H2 were equally supported and strong relationship exists between the constructs. The model presented in Figure 1 has theoretical justification, and provides insight into the dynamics linking relationships between CSR and stakeholder satisfaction and loyalty.

A commonly-used approach to test mediation, (using a series of regression analyses), follows the criteria outlined by Baron and Kenny (1986). According to these authors, a variable may be said to function as a mediator to the extent that it accounts for the relationship between the predictor and the criterion or outcome variable. In relation to this, we examine whether stakeholder satisfaction reported fully mediates, as assumed in the literature, or partially mediates the relationship between the CSR and stakeholder loyalty. If Path c in the last condition above were zero, this would be indicative of full mediation. If Path c is not zero but is still significant, this would be indicative of partial mediation. As a mediator variable, the three conditions should be met as follows (Baron and Kenny, 1986, p. 1176):

- 1.) variations in levels of the independent variable significantly account for variation in the presumed mediator (i.e., Path a),
- 2.) variations in the mediator significantly account for variations in the dependent variable (i.e., Path b), and
- 3.) when Paths a and b are controlled, a previously significant relation between the independent and dependent variables is no longer significant, with the strongest demonstration of mediation occurring when Path c is zero.

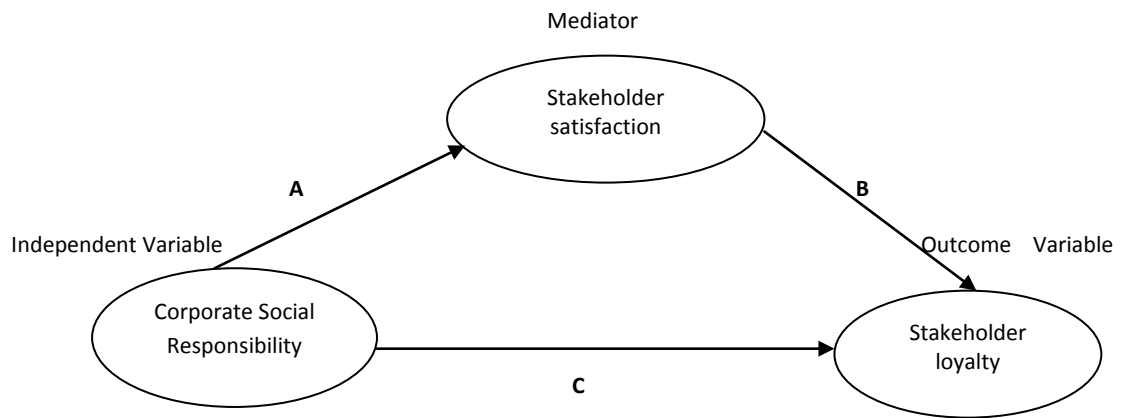
However, this approach does not test the significance of the indirect effects (Mackinnon, Lockwood, Hoffman, West, and Sheets, 2002). In this approach, the association between the explanatory variable is determined or otherwise and the outcome significantly reduces the presence of the mediating variable. While Mackinnon *et al.*, (2002) argue that newer methods have been shown to have higher power than the Sobel test, the Sobel test is used in this study because it is the most widely employed (Bontis, Booker and Serenko, 2007).

The Sobel test provides a means of testing whether the influence of the independent variable on the dependent variable that is expressed through the mediator is significant. The result shows, z-value is 4.813. Therefore, the Sobel test statistics are significant for the data, indicating that CSR does have a significant indirect effect on stakeholder loyalty that is mediated by stakeholder satisfaction.

PLS has rarely been used for mediation testing (Bontis *et al.*, 2007), while regression analysis following Baron and Kenny's (1986) approach has been widely used to test for mediation. In order to test this mediation effect, an analytical approach using PLS analysis was taken for the following reasons, first PLS provides the additional benefit of allowing examination of all of the paths in the CSR model simultaneously, and secondly PLS provides triangulation of the results obtained using the more traditional Baron and Kenny (1986) approach.

Furthermore, the PLS analysis reveals that all three paths are significant, which means that the independent variable (CSR) has a direct effect (Path c) as well as an indirect effect via the mediator (Paths a and b) on the dependent variable (stakeholder loyalty). These results provide support for the hypothesis of partial mediation (see Figure 2).

Figure 2 Analysis of Mediation Effect Using PLS Analysis



Path	Beta coefficient	t-value
A	$\beta = 0.738^{***}$	$t = 15.6776$
B	$\beta = 0.564^{***}$	$t = 5.0561$
C	$\beta = 0.343^{**}$	$t = 2.8933$
Sobel test	z-value = 4.813	

Note: * Significant at $p < 0.05$; ** Significant at $p < 0.01$; *** Significant at $p < 0.001$.

Finally, supporting Hypothesis 3, stakeholders' satisfaction mediates the relationship of CSR and stakeholders' loyalty had a significant effect ($\beta = 0.564$, $p < 0.001$). The model explained substantial variance in CSR ($R^2 = 0.842$), stakeholder loyalty ($R^2 = 0.722$) and stakeholder satisfaction ($R^2 = 0.544$).

5. DISCUSSION AND CONCLUSION

The results indicate the relative importance of the CSR in relation to stakeholder satisfaction and loyalty. According to this study, CSR appears to have tendency to satisfy the stakeholder and to lead to stakeholder loyalty. For example, if the customer had to choose all over again she or he would not feel differently about choosing a CSR-based company. Moreover, they feel they did the right thing in deciding to use products and services from a CSR-based company. The customer will feel confident and happy with product and services offered by firms that engage in CSR. More specifically, purchasing services and products from a CSR-based company is usually a satisfying experience for them. Furthermore, when stakeholders feel satisfied, they will say positive things about CSR-based companies to other people. Consequently, they intend to continue being customers of CSR-based companies for a long time to come and will encourage friends and relatives to use the products or services offered by CSR-based companies. Another significant example is employees' behaviour toward firms that engage in CSR. Employees also feel motivated and secure working with companies that engage in CSR. They will stay longer and feel proud as a result of working with the firm – a result that also appears compatible with the qualitative interviews. Therefore, these stakeholders will become loyal customers of the company.

In order to confirm the mediational roles played by stakeholder satisfaction, a hierarchical model test was performed using PLS. This is a commonly-used approach to test mediation, (using a series of regression analyses), following the criteria outlined by Baron and Kenny (1986). The result shows that z-value is 4.813. Therefore, the Sobel test statistics are significant for the data, indicating that CSR does have a significant indirect effect on stakeholder loyalty that is mediated by stakeholder satisfaction. Moreover, the PLS analysis reveals that all three

paths are significant, which means that the independent variable (CSR) has a direct effect (Path c) as well as an indirect effect via the mediator (paths a and b) on the dependent variable (stakeholder loyalty).

Furthermore, the results have several implications for managers, including guidelines for implementing CSR. More specifically, with respect to stakeholder loyalty, firms should engage in systematic customer value and social responsibility by examining stakeholder satisfaction. If firms structure their CSR according to these activities, they will have a good starting point for gaining stakeholders' loyalty. The research findings suggest a number of implications for managing CSR. These include the need for management to acknowledge that the provision of CSR is an expectation of many stakeholders. It is possible that stakeholders see CSR as contributing to a better relationship, together with the firm's other activities or merely perceive it as an additional value to the firm (and the organisation as a whole). This view is in accordance with stakeholder theory and the need to integrate CSR into the firm's core business activities is likely to be considerable. Generally, the findings suggest the following specific directions for the organisation regarding the CSR model of management:

- 1). Firms should continually monitor the level of fulfilment of stakeholders' social needs and satisfaction with the organisation if they wish stakeholders to remain loyal to their organisation.
- 2). Firms need to look beyond simply providing valuable CSR in order to build strong, enduring relationships with stakeholders.

However, such action may be poorly implemented if firm does not consider the distinction between CSR dimensions. This study also acknowledged the need for considering alternative specifications of multidimensional constructs of CSR. One alternative is to formatively construct the CSR. Therefore, future research should consider examining the CSR dimension(s) in its operationalization process.

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