WORKPLACE CONDITION AS A MODERATOR BETWEEN INNOVATION INVESTMENT AND COMPANY PERFORMANCE

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ABSTRAK

Kajian ini bertujuan untuk mengenalpasti kesan keadaan tempat kerja, iaitu keselamatan kerja dan kesihatan, pembangunan pekerja, retensi pekerja, kepelbagaian dan hubungan pekerja, ke atas hubungan antara pelaburan inovasi dan prestasi syarikat. Kajian ini dilakukan dengan menggunakan laporan tahunan syarikat untuk tahun 2007 dan 2008 sebagai sumber utama pengumpulan data. Keputusan regresi menunjukkan bahawa tidak ada perbezaan antara pengaruh langsung dan hasil interaksi. Penemuan ini menunjukkan bahawa keadaan tempat kerja tidak memberikan pengaruh yang signifikan terhadap ROE apabila menggunakan model interaksi. Namun, apabila diuji menggunakan model kesan langsung pembangunan pekerja mencatatkan pengaruh negatif yang signifikan terhadap ROE dan ianya mungkin disebabkan oleh tempoh masa pemerhatian yang singkat. Rumusannya, hasil kajian ini dapat memberi maklumat kepada peneraju utama syarikat mengenai kesan terhadap pelaburan inovasi keadaan tempat kerja yang boleh digunakan dalam proses pembuatan keputusan pelaburan strategik.

ABSTRACT

This study aims to investigate the moderating effect of workplace conditions, namely occupational safety and health, employee development, employee retention, diversity and employee relation, on the relationship between innovation investment and company performance. The study was conducted using the annual report for year 2007 and 2008 as the main source of data collection. The regression results revealed that there is no difference between the direct effect and interaction effect results. The finding shows that the workplace conditions are not significantly contributed to the ROE in the interaction effect. However, the employee development was noted to have negatively significant contribution to the ROE in the direct effect model which it may be due to the short period of observation time. Accordingly, the study provides the key players the information on the possible impact of innovation investment and the workplace conditions on firm performance that can be used in strategic investment decision making.

CHAPTER 1

INTRODUCTION

1.0 Introduction

This chapter discussed about the background of study entitled “Workplace Condition as a Moderator between Innovation Investment and Company Performances.” It gives an introduction to the study that discusses the background of the study, research objectives, research questions and the significance of the study to the society.

1.1 Background of the Study

Workplace is a place where people work such as office and factory (Hornby, 2000) that has an establishment or facility at a particular location containing one or more work areas However, based on the Corporate Social Responsibility (CSR) perspective, workplace conditions are focusing on the conditions of work including wages and other forms of compensation, working time, rest periods, holidays, disciplinary and dismissal practices, maternity protection and welfare such as safe drinking water, canteens and access to medical services (ISO 26000). According to the Organization for Economic Co-operation and Development 75.7 per cent of the codes of conduct were listed under the ‘reasonable working environment’ in year 2001. This shows that the workplace conditions are very important for an organization (Guentes-Gracia, Nunez-Tabales, & Veroz-Herradon, 2008). This fact was supported by The Future of

CSR: 2009 Report, which has listed the labour and human resources as the top three CSR issues – such as the appropriate wages levels; discrimination; workplace conditions and child labour – emerging over the next decade (CSR Asia, 2009).

Thus, in relation to the importance of the workplace conditions to the organizations the CSR Asia has take an initiative by developing an indicator entitled CSR Business Barometer and locate the 'Workplace and People' as one of the dimensions with 13 number of indicators. Those indicators are (1) health policy; (2) health and safety training programme; (3) pre-planned staff training time/budget; (4) lifelong learning policy/programmes; (5) company-wide employee benefits statement/policy; (6) overtime compensation policy; (7) employee satisfaction surveys; (8) disclosure of diversity statistics; (9) diversity policy/initiatives; (10) equal opportunity statement/policy; (11) human rights statement/policy; (12) process for formal complaints; and (13) freedom of association policy statement (CSR Asia, 2008). These indicators are closely linked with the guidelines based on the International Labour Organization's (ILO) declaration of business principles and social policy as well as OECD guidelines about multinational companies (MNCs) and the SA8000 standard (Guentes-Gracia et al., 2008).

Over the years, there are lots of study that has been made concerning the link between corporate social responsibility (CSR) initiatives and organisational performance (Mill, 2006; Rettab, Brik, & Mellahi, 2009; Nelling & Webb, 2009) and it were also summarized that 27 out of 39 studies on relationship between corporate social responsibility and financial performance had measured to have positive relationship (Rettab et al., 2009). Margolis and Walsh (2003 as quoted in Mill, 2006) said that: "…there is a positive association and certainly very little evidence of a negative association, between a company's social performance and its financial performance". Business for Social Responsibility (BSR) also had reported the CSR activities have intangible effects to the company performance as they showed up in any systematic way on the balance sheet, the profit-loss statement or cash flows. In addition, one of the alternative definitions are "nonphysical factors that contribute to or are used in producing goods or providing services, or that are expected to generate future productive benefits for the individual or firms that control the use of those factors" (White, 2006).

Thus, workplace would possibly have the positive relationship with the financial performance. Also, research literature has stated that, "a business can create conditions for innovation and enhanced productivity though workforce commitment, motivation, retention and innovation" (Exton & Totterdill, 2007) as the innovation in the organization can be developed through the combination of policies, practices or services (Balkin, Tremblay, & Westerman, 2001). In addition, Stevens (2003) had identified three ways with the purpose of making innovation possibly occurs in workplace that are through the use of good HR practice; achieving the right 'fit' between business strategy and HR practice; and adopting specific 'bundles' of practices. It is because improving the workplace conditions based on high skills, high trust and high quality will also improve employment and competitiveness (European Commission, 1997).

1.2 Problem Statement

Workplace is one of the focal areas listed in Bursa Malaysia Corporate Social Responsibility (CSR) Framework for Malaysian Public Listed Companies (PLCs). The framework is a set of guidelines for Malaysian PLCs to practice CSR as mentioned by the Prime Minister in the 2006 budget speech that requires all PLCs to disclose their CSR activities (Bursa Malaysia, 2006) in their annual reports (Yakcob, 2006) as the CSR activities become more crucial for the business nowadays. It is because the CSR activities give very positive impacts to the company such as increasing in profits (Mill, 2006), customer loyalty, trust, positive brand attitude and combating negative publicity (McDonald & Rundle-Thiele, 2008). For evidence, research done with the information over 300 of Standard & Poor's of 500 companies found that responsible management which integrated with core business – which considered as 'strategic' by Husted and de Jesus Salazar (2006) – means investing in key stakeholder relations, which in turn may lead to improve customer s' loyalty and less turn over (Halme & Laurila, 2009).

Moreover, a survey shows that top-performing companies – those with higher profits, better employee engagement and stronger market and brand position – have significantly higher-performing work environments than average companies (Gensler, 2008). As stated by Totterdill, Dhondt and Milsome (2002) to be clear concentration on those factors – focus, collaborate, learn and socialize (Gensler, 2008) – which determine the extent to which employees can develop and use their competencies and creative potential to the fullest extent, thereby enhancing the company's capacity for innovation and competitiveness while enhancing quality of working life (Exton & Totterdill, 2009). Consequently, it shows a strong linkage between the workplace conditions with the innovation. The mechanism through which R&D/innovation contributes to superior performance has been studied by several researchers (e.g., Alchian and Demsetz 1972; Dierickx and Cool 1989; 1994) (Xin, Yeung, & Cheng, 2008).

In addition, Fabling and Grimes (2007) found that investment in capital equipment; R&D and market research are strongly associated with firm success. More to the point, it is worth noting that recent surveys of U.K. business speak of a link between innovation and social performance for a sizeable, and growing, proportion of firms (Pavelin & Porter, 2008). In addition, Drucker (1985 as cited in Hsueh and Tu, 2004) has put forward the view that innovation and entrepreneurship were the key factors affecting an enterprise's success and ongoing growth as the innovation gives resources new capability, and allowing them to create wealth and benefits.

Besides, Drucker had advocated the idea of 'entrepreneurial management' which is very closely related with creating innovation environment in organization. He suggested that entrepreneurial management requires the policy to be formulated and implemented with respect to four specific areas: (i) the organization must made receptive to innovation, and policies and practices are needed to create entrepreneur climate; (ii) the organization must undertake systematic measurement of the company's performance with respect to innovation, and must systematically cultivate a learning ability to improve performance; (iii) the enterprise must formulate a clear organizational structure, with regard to staffing and managing, and to compensation, incentives and rewards; and (iv) the things that an enterprise should not do in terms of entrepreneur management, include combining the management and innovation departments, moving out of one's original field to achieve innovation through acquisition (unless the sub subsidiary can be provided with a set of management systems within a short period of time) (Hsueh & Tu, 2004). Indirectly, the four specific areas proposed by Drucker support the definition of workplace conditions given above.

Recently, as discussed above there are many researches and empirical study that has been done under the umbrella of corporate social responsibility (CSR) and innovation especially regarding their relationship or impacts to the company's financial performance (Hsueh & Tu, 2004; Mill, 2006; Pavelin & Porter, 2008; Halme & Laurila, 2009; Nelling & Webb, 2009). Though, the increasing amount of literature and tremendous research attention on these topics through the Malaysian context that takes into consideration the nation's social aspirations and socio-economic objectives (Yakcob, 2006) seem to be not only limited, but also neglected (Hashim, Mahajar, & Ahmad, 2003). As results, there is very few information about the role and nature of these topics in the local context.

In view of research gap and the lack of information concerning workplace conditions simultaneously with the innovation investments and company performance relationship in Malaysian public listed companies (PLCs), more focus research attempts need to be carried out. In this connection, this study is conducted to examine the moderating impact of the workplace conditions between innovation investment and company performance.

1.3 Research Objectives

Subsequent from the above problem statement, this study attempts to accomplish the following objectives:

1) to examine the relationship of innovation investment and company performance;
2) to examine the relationship between workplace conditions and the company performance, specifically this research will look into the followings:
    a. To examine the relationship of company initiatives in occupational safety and health and company performance.
    b. To examine the relationship of company initiatives in employee development and company performance.
    c. To examine the relationship of company initiatives in employee retention and company performance.
    d. To examine the relationship of company initiatives in diversity and company performance.
    e. To examine the relationship of company initiatives in employee relation and company performance.
3) to examine the moderating effect of workplace condition to the innovation investment and company performance relation.

1.4 Research Questions

In order to perform this study, the following research questions are necessary to be address:

1) Do innovation investments have any relationship with company performance?
2) Do the workplace conditions have any relationship with company performance?

   Specifically this research will look into the followings:

   a. Do company initiatives in occupational safety and health influence company performance?
   b. Do company initiatives in employee development influence company performance?
   c. Do company initiatives in employee retention influence company performance?
   d. Do company initiatives in diversity influence company performance?
   e. Do company initiatives in employee relation influence company performance?
3) Do the workplace conditions moderate the relationship between innovation investment and company performance?

1.5 Significance of the Study

Understanding the influencing factors of innovation investments and company performance has been a topic of much research over the past years. Nevertheless, most of the existing research studies the R&D spillovers and the firm performance (Audretsch & Vivarelli, 1996; Aiello & Cardamone, 2006). Some researches investigate the relationship between the corporate social performances and the innovation level (Pavelin & Porter, 2008). There are also a number of researches that try to build up an index for innovation based on the knowledge capital investment (Clayton, Borgo, & Haskel, 2009).

This study investigates the factors that influence workplace conditions such as occupational safety and health activity, employee development programmes, employee retention activity, diversity and employee relations towards the innovation investment and company performances relationship. One important contribution of this study is the consideration of embedding the stakeholder theories with the moderators to account the dynamic influences to company performance.

The proposal framework will give insights on workplace conditions mechanisms that will help to develop understanding on how to increase the company profits. It also provides information of the effectiveness of workplace conditions in relation to company's innovation level and company's performance. Consequently, the result of the study will act as a reliable information source for the key players' on the potential impact of innovation investment and the workplace conditions on the firm performance that will help in strategic investment decision making.

This study seeks a comprehensive assessment and understanding of the dimensions that influence the company performance, in conjunction with the moderating effects of workplace conditions. Hence, from the Government perspectives, it helps to identify the necessary points for grant incentives allocation under the corporate social responsibility enhancement programmes if they want to address the workplace conditions as one of the CSR's key elements. It will also serve as supporting justifications to the CSR Award, particularly in Malaysia, such as the Prime Minister's CSR Award.

1.6 Organization of the Study

This study is arranged into five main chapters and the outlines of the remaining chapters are as follows:

Chapter 2: Literature Review

This chapter contains the review of the related literature in relation to the theories and empirical evidence pertaining to innovation investment, workplace condition and impact of the firm performance in terms of return. The discussion on the workplace conditions are focusing on five aspects; which are employment aspect; labour/management relation aspect; occupational health and safety programme aspects; training and education aspect; and diversity and equal opportunity. The theoretical framework is also discussed in this chapter.

Chapter 3: Research Methodology

This chapter presents discussion on research methodology and the framework used in the study. This chapter starts with the development of the hypothesis. Followed by research design; measurement of variables; also the statistical techniques in examining the moderating effect of workplace condition on the relationship between innovation investment and firm performance.

Chapter 4: Results and Data Analysis

This chapter describe the descriptive analysis for this study. The SPSS is used in order to run the regression model and the results are summarized in the comprehensive table format for easier interpretation and justification.

Chapter 5: Conclusion

This chapter concludes the overall findings of this study. In addition, it also provides the implications and the limitations of the findings. The suggestions for future research are also recommended in this chapter.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This chapter presents the empirical evidence and comprehensive literature reviews pertaining to workplace conditions, innovation investments and company performance. The first section explains the theories that may be the underlying theory for this study such as the stakeholder theory, agency theory and legitimacy theory. The second section discussed about stakeholder in the corporate social responsibility (CSR) concept. Then, the third chapter will discuss deeper about the roles of workplace and employees as main stakeholder. Furthermore, in the fourth section will briefly categorize the workplace condition mechanism, which is used as the indicator. The fifth section will discuss the concept of workplace conditions mechanisms that is divided into six categories, which consist of 12 items. In the next section, this study will highlight the meaning of innovation and the effects of the innovation investment on company performance. The final section discusses the relationship between workplace conditions, innovation investments, and company performance. The review of the literatures above leads to the construction of the theoretical framework for this study.

2.1 Stakeholder Theory

Freeman, Wicks, and Parmar (2004) had viewed stakeholder theory as managerial in that it reflects and directs how managers operate rather than primarily addressing management theorist economists. Freeman's traditional definition of stakeholder, as cited in Fontaine et al. (2006) is "*any group or individual who can effect or is affected by the achievement of the organization's objective*." Thus, it suggests that managers should make decisions with considering the interest of all stakeholders, which include all individuals or groups who can substantially affect the welfare of the firm (Jensen, 2001) which addressed by Ruf, Muralidhar, Brown, Janney, and Paul (2001) comprises internal, external and environmental constituents. Also under some interpretations, it includes the terrorists, blackmailers, and thieves (Jensen, 2001). There are two different strands of stakeholder research that had been developed over the past decade and a half, which are the "instrumental" or Social Science strand and the "Business Ethics" strand (Scholl, 2001). He said that both strands cover some common ground but differ drastically in method used and results achieved. According to Kaler (2006), for the purposes of business ethics, stakeholder theory has two main functions. It is (a) a way of arguing for an enhancement of distributive justice within the limits of an essentially capitalist structure for companies by means of a more extensive serving of non-shareholder interest relative to those of shareholders approach to successively companies. In addition, stakeholder theory is (b) used as a way of understanding corporate social responsibility (CSR) in it perhaps most generally accepted sense of companies taking on obligations to society beyond those who owed to shareholder. Organizations from this perspective are expected to manage responsibility for extended web of stakeholder interests across increasingly permeable organization boundaries and admit a duty of care towards traditional interest groups as well as silent stakeholders (Jamali, 2008). Stakeholder theory hence offered a new way to organize thinking about organizational responsibilities and some even argue that an inclusive stakeholder approach makes commercial sense, allowing the firm to maximize shareholder wealth, while also increasing total value added (e.g. Hawkins, 2006; Philips et al., 2003; Wallace, 2003) (Jamali, 2008). From a Resource-Based View perspective, firms view meeting stakeholder demands as a strategic investment, requiring commitments beyond the minimum necessary to satisfy stakeholders (Ruf et al., 2001).

On the other hand, Freeman, Velamuri and Moriarty (2006) have argued, corporate social responsibility (CSR) is often about seeming to "do good works" but while there is certainly nothing wrong with doing more good. There can be an implication that companies need to do good works because of business is not good, or morally neutral and this is a destructive idea – it fails to recognize the central role business plays globally in improving the well-being and prosperity of hundreds of millions of people. However, Neville and Menguc (2006) criticised Freeman for his views by saying that a significant weakness in the current academic understanding of corporate social responsibility (CSR) lies in the traditional conception of discrete, dyadic, 'hub and spoke' relationships between the organization and its stakeholders which propose by Freeman in year 1984. It implies that stakeholder groups independently contend for managerial attention and resources. While this may often be the case, stakeholders also may interact, corporate and form alliances with other stakeholders. Longo, Mura, and Bonoli (2005), in their assessment of CSR and CSP in the context of a sample of Italian SMEs identified the demand key stakeholders regarding the creation value by the business, result a grid of values as in **Table 2-1**. Table show the value classes identified for each stakeholder with value classes that satisfy their perspective expectations and employees, suppliers, customers and community due to the kind of social behaviour and instruments that business can implement in order to create value and therefore satisfy the various expectations. Also, Abreu, David, and Crowther (2005) in their exploration of the CSR practices of the CSR experience and practice of enterprises in Portugal, whereby five key stakeholders were identified, including consumers, suppliers, the community, the government and the environment. Internally, they also examined workplace practices vis-à-vis employees (Jamali, 2008) as used by Papasolomau-Doukakis, Krambia-Kapardis, and Katsioloudes (2005) in the context of Cypriot business. Their rational of using a stakeholder approach is because stakeholders always effect or affected by business organizations and consequently viewed as imposing on their different responsibilities (Jamali, 2008).

Table 2-1
The "grid of values"

Stakeholder	***Expectations divided into value classes***
Employees	Health and safety at work
	Development of workers' skills
	Wellbeing and satisfaction of the worker and quality of work
	Social equity
Suppliers	Partnership between ordering company and supplier
	Selection and analysis systems of suppliers
Customers	Product quality
	Safely of customer during use of product
	Consumer protection
	Transparency of consumer information on product
Community	Creation of added value for the community
	Environmental safety and protection

Source: Adapted from Longo, Mura and Bonoli (2005)

Table 2-2

CSR actions vis-a-vis key stakeholders

Stakeholder	***Actions vis-a-vis key stakeholders***
Employees	Provides a family friendly work environment
	Engages in responsible human resource management
	Provides an equitable reward and wage system for employees
	Engage in open and flexible communication with employees
	Invest in employee development
	Encourages freedom of speech and promotes employee rights to speak up and report their concerns at work
	Provides child care support/paternity/maternity leave in addition to what is expected by law
	Engages in employment diversity in hiring and promoting women, ethnic minorities and the physically handicapped
	Promotes a dignified and fair treatment of all employees
Consumers	Respects the rights of consumers
	Offers quality products and services
	Provides information that is truthful, honest and useful
	Products and services provided are safe and fit with their intended use
	Avoids false and misleading advertising
	Discloses all substantial risks associated with product or service
	Avoids sales promotions that are deceptive/manipulative
	Avoids manipulating the availability of a product for purpose of exploitation
	Avoids engagement in price fixing
Community	Fosters reciprocal relationships between the corporation and community
	Invests in communities in which corporation operates
	Launches community development activities
	Encourages employee participation in community projects
Investors	Strives for a competitive return on investment
	Engages in fair and honest business practices in relationships with shareholders
Suppliers	Engages in fair trading transactions with suppliers
Environment	Demonstrates a commitment to sustainable development
	Demonstrates a commitment to the environment

Source: Adapted from Papasolomau-Doukakis, Krambia-Kapardis, & Katsioloudes (2005) in Jamali (2008)

In this case, they identified six groups as key stakeholders including employees, customers, investors, suppliers, the community and the environment and defined relevant CSR actions vis-à-vis each cluster respectively as illustrated in **Table**

2-2. Their findings suggested that Cypriot firms accord the most attention to employees and consumers in their pursuit of CSR moderate attention to the community stakeholder, and limited attention to suppliers, investors, and the environment (Jamali, 2008).

However, according to Fontaine et al. (2006) the stakeholder groups' categories could be defined more finely. For example, media could split up into radio, television and print media, or employees as blue-collar and white-collar workers, or in terms for which department they work. They also highlighted the advantage of finer categories of stakeholders is that by doing so more homogeneous grouping of people is more likely. The negative fact about this would be the greater chance of overlapping of interests and actions.

2.2 Legitimacy Theory

Legitimacy theory recognizes the fact that there are many alternative uses of the resources that an organization has (Haron et al., 2007) to legitimize and continue their existence to stakeholders by undertaking corporate environmental reporting (Lodhia, 2004). In addition, the society may remove the organization's right to continue their operations if the organization does not appear as publicly appropriate by society (Haron et al., 2007).

In Malaysian context, the disclosure practices done by companies may be driven by the need to legitimize their activities (Haron et al., 2007). Barkemeyer (2007) said that in the CSR context in developing countries, the explanatory power of organizational legitimacy theory is twofold. First, is the capability to address more than profit maximising. The other one is the ability to embrace cultural factors, which will form different institutional pressures in different context.

Legitimacy theory suggests that organizations disclose information as means of establishing or protecting the legitimacy of the company (Haron et al., 2007). The common media that companies often use for disclosing environmental accounting information to their stakeholders include conventional print media such as annual reports, environmental reports, news media, advertisements and brochures (Lodhia, 2004).

2.2.1 Theory Justification

There are two theories that take into consideration in this study namely the stakeholder theory and the legitimacy theory to explain the framework. However, the legitimacy theory has been eliminating from the consideration, as the theory was unfit with the nature of the study. The theory justification made based on Hill and Jonas (1992). This study operates on the assumption that the innovation level and company performance will increase when the employee is provided with a good workplace conditions and the stakeholder theory satisfy the assumption. It is because, the stakeholder theory discussed on the existence of an exchange theory between the company and the stakeholder. For example, managers and employees provide the firm with time, skills, and human capital commitments. In exchange, they expect fair income and adequate working conditions (Hill & Jones, 1992). Thus, the stakeholder theory perfectly merges with the framework.

2.3 Stakeholder and Corporate Social Responsibility (CSR)

CSR nowadays is becoming an increasingly prominent issue in Europe, North America (Council for Better Corporate Citizenship, 2002) including Malaysia (Yakcob, 2006) as it becomes a notable topic in both the business and academic press (Nelling & Webb, 2009). According to the Social Investment Forum, total social responsible investment (SRI) in the United States stood at around US$40 billion in 1984, continued to grow in the 1990s, and reached more than US$2.3 trillion in 2001 (Council for Better Corporate Citizenship, 2002). For Wherther & Chandler (2006), the entirety of corporate social responsibility (CSR) can discern from the three words this phrase contains: corporate, social, and responsibility and it covers the relationship between corporations (or other large organizations) and the societies with which they interact. However, there is no single definition of CSR or social accountability (ISO COPOLCO, May 2002). For Business for Social Responsibility (BSR), they defined CSR as achieving commercial success in ways that honour ethical values and respect people, communities, and the natural environment (BSR Staff, 2003).

In addition, it was heartening to hear Dato' Zarinah Anwar, Chairman Securities Commission say in her opening remarks at the recent seminar on "Making a Difference through CSR - Meeting the Challenges" organised by the Securities

Commission and the United Nations Development Programme (UNDP) that corporate social responsibility (CSR) is not about building schools or giving out scholarships but rather a shared business obligation, and efforts in fostering a strong corporate governance culture and ensuring the sustainability of business in the interest of wider stakeholders (ACCA & The Edge, 2006). Furthermore, Mrs. Ziva Patir, the Director General of Standard Institution in her speech in ISO Workshop on Corporate Social Responsibility (Jun 10, 2002) has quoted says:

> *"… I love the definition of CSR given in the Corporate Social Responsibility Newswire, "the integration of business operation and values whereby the interest of all stakeholders including employees, investors, and the environment are reflected in the company's policies and actions." I would like to add "local community" as a stakeholder of this definition…"*

However, although various definitions exist, the one proposed by the European Commission in its Green Paper of 2001 is widely accepted: CSR is "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing 'more' into human capital, the environment and the relations with stakeholders" (Miraglio, Hunter, Iucci, & Pinoargote, 2007). As supporting on investing 'more' into human capital, Bursa Malaysia has split their workplace element from society and so everything that they do with their staff needs to be socially responsible, whether dealing with basic human rights or gender issues. Also, put the quality work environment, safety, and health as obvious consideration (Bursa Malaysia, 2006) since numerous study on the relationship between human resource management (HRM) and firm performance within large firm show evidence of a positive impact (Sels, Winne, Delmotte, Faems, & Forrier, 2006).

The Council for Better Corporate Citizenship (2002) has listed main reasons for these growing interests are globalization and rapid advances in information technologies; the greater importance of citizenship-driven activities, best seen in the work performed by non-governmental organizations (NGOs); greater social awareness among customers; and increased competition among corporations. Moreover, academic research has examined the causal relation between CSR and financial performance – which sometimes is referred to as the 'virtuous circle' – to determine if 'doing good' socially leads to 'doing well' financially, and whether firms exhibiting superior financial performance devote more resources to social activities. Waddock and Graves (1997) also Hillman and Keim (2001) has find that the increase of CSR leads to enhanced financial performance and vice-versa (Nelling & Webb, 2009).

However, Moon (2007) has stated that a growing consensus is that there is a positive correlation between a firm's social performance and financial performance but the existing studies, which find positive association between CSR and corporate social performance, are vulnerable to a concern that unobserved heterogeneity drives the result. Conversely, despite the extensive body of research on CSR and financial performance, Nelling and Webb (2009) believe that additional analysis is a warrant and they used alternative statistical techniques to provide new insights on the causal relationship between firm performance and CSR.

2.4 Workplace and Employee as Main Stakeholder

A study done by Papasolomau-Doukakis et al. (2005) discover that one of the most interesting features of the research findings is what Cypriot firms that claim to practice CSR consider to be important aspects of CSR. It appears that local corporations primarily emphasize the importance aspects of meeting their responsibilities and obligations toward their employees and customers.

Business has a direct stake in putting human needs first. Working conditions that respect the need for human dignity, equality and social protection also bring productive workplaces and competitive business (Somavia, 2000). In the same article, Somavia argued that business depends on success of access to capital, infrastructure in areas of education, health and environmental safety, institutions for social dialogue, science and technology, communications, transportation and logistics. So too in the workplace, the interaction between economic efficiency and equity demonstrates a productive factor that brings social efficiency. Well-corroborated evidence shows, for instance, that safer jobs are more productive; that child labour undermines longer-term economic capacity; that effective policies for gender equality lead to more dynamic business growth; and that a more secure population supports a workforce that is more able and willing to adjust to economic change.

2.5 Innovation

Innovation increasingly being recognized and emphasize as an important priority for business organizations throughout the world (Hashim et al., 2003; Fukugawa, 2006).

This is because business organizations need innovation to create as well as maintain their competitive advantages (Hashim et al., 2003; Xu & Zhang, 2008). These competitive advantages can include comparative advantages by obtaining access to lower costs production (Klaassen, Miketa, Larsen, & Sundqvist, 2003), as well as the firm's ability to obtain economies of scale in production, marketing or purchasing through high level of export (Huse et al., 2005). In addition, innovation not only leads to new products (Srinivasan, 2003), expansion to new markets segment (Xin et al., 2009) and to commercial but also financial success (Fassin, 2000). That is the reason why Arnold and Thuriaux (2003) in Funk and Plunnecke (2009) defined:

> *"…innovation as a fundamentally economic process... called innovation 'a new combination of factors of production'. This can be result of an invention. However, it can equally involve exploitation of new natural resources, copying an idea from a distant market, or describing an old product in a new way…"*

Extremely, for Baumol (2002), innovation not only aims for the financial success but also as the main battle weapon with which they protect themselves from competitors and with which they seek to beat those competitors out. As Lin (2000) cited from Hsueh and Tu (2004):

> *"...innovation is an attitude, a way of thinking, a kind of imagination and reform, whereby an enterprise can move past the present and glimpse the future. It is a capability built up through the long-term accumulation of knowledge, experience, and wisdom, encompassing leadership, novelty, and distinctiveness. It can provide an enterprise with vitality, new competitiveness, growth, and profits, and can stimulate new needs amongst customers and consumers. However, innovation is very expensive to implement, very*

uncertain and very difficult to manage; it is also subject to attack and imitation...”

According to Brulin (2002) as quoted from Langvik, Johansen, Callisen, Normann, and Thoresen (2005), there are different major perspectives from innovations theory have been produced. They also said that innovation could be seen as parts of process in systems that can be described as:

1) The Linear Model

Based on a linear life span of innovations from findings in basic research, refinement in industrial research institutions and laboratories, and then to the big companies’ research and development departments and final mass production.

2) The Innovation System Approach

An interactive triple helix is working system constituted by universities, public authorities, and the business community.

3) Relationship-building and networking

A relational economy is the chief asset for innovation is the set of relations.

Besides, the nature of innovation might be diverse, but one useful description is the broader perspective on innovation as given by Levin et al. (1994), where innovation can be divided into four parts (Langvik et al., 2005):

1) Product innovation - Any form of development of the products and services of the organization.