

## **INVESTIGATING THE RELATIONSHIP BETWEEN CORPORATE CITIZENSHIP CULTURE AND ORGANISATIONAL PERFORMANCE IN THE MALAYSIAN CONTEXT**

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### **ABSTRACT**

*Contemporary organisations are required to be responsible to their shareholders, customers, employees, communities and ecology in all aspects of their operations in order to gain a competitive advantage. An organisation's obligations toward society, known as corporate citizenship, are economic, legal, ethical, and discretionary. Corporate citizenship reflects one view of social responsibility that relates to the social responsibilities of organisations toward their stakeholders. Thus, this study examines the relationship between corporate citizenship culture and organisational performance. Overall, 261 respondents from a total population of 1379 were used in analysing the data. The units of analysis of this study are publicly listed companies in Malaysia. The findings suggest that all elements of corporate citizenship culture are significantly related to organisational performance, especially ethical citizenship. The results support theoretical predictions and reveal interesting findings that can help organisations to better understand how their performance affects society's perceptions of them and help change organisational behaviour to meet public expectations.*

**Keywords:** corporate social responsibility, corporate citizenship culture, stakeholder theory, organisational performance

### **INTRODUCTION**

Corporate social responsibility (CSR) has numerous meanings and classifications. It is also known as corporate responsibility, corporate citizenship, corporate responsiveness, sustainable responsible business, or corporate social performance. At its core, CSR is how an organisation balances its values, behaviour and accountability with the expectations and needs of its internal and external stakeholders. CSR describes an organisation's dedication to being

responsible to its stakeholders and earning their trust. Ideally, organisations fulfil their duty to stockholders and stakeholders through profit maximisation while meeting the obligations that directly influence their ability to achieve their objectives. At the same time, organisational social responsibility is an organisation's obligation to protect the natural environment, making it a better place to live and work and creating situations that are favourable and profitable for the general public and the organisation (Carroll & Buchholtz, 2003). In summary, the goals of organisations are not only to make profits but also to be socially responsible.

Carroll (2000) conceptualises CSR as a social obligation. He emphasises that corporations have "four faces" of social obligation in their efforts to be good corporate citizens: economic, legal, ethical and philanthropic or humanitarian. Organisations not only need to consider their economic goals, but they also must operate within the law, be ethical and fair and be good corporate citizens while fulfilling the needs of the stakeholders. At the same time, researchers such as Bowen (1953), Davis (1960) and McGuire (1963) identify CSR as those policies, activities, or behaviours an organisation undertakes that go beyond the traditional economic and legal obligations that it has with its internal and external target stakeholders. Therefore, CSR in this study is defined in terms of the following:

1. Economic, ethical, legal and discretionary responsibilities that are being conceptualised as corporate citizenship culture with the aims of creating higher standards of living and quality of life in the society in which the organisation operates.
2. An organisation's active responsibility for its employees' lives, including the organisation's internal and external activities that contribute to the well-being of society.
3. Improving employees' quality of life and society at large (Carroll, 1979; Maignan, Ferrell, & Hult, 1999).

Moreover, to operate effectively and efficiently, organisations must enthusiastically accept responsibility for their own actions, thereby building and nurturing their good image, and maintaining their reputation (Stainer, 2006). Therefore, the main purpose of this study is to examine the relationship between corporate citizenship culture and organisational performance and to determine whether practicing social obligation enhances performance in the Malaysian context.

## **LITERATURE REVIEW**

### **Corporate Citizenship Culture**

Carroll's "four faces" CSR model describes an organisation's obligation toward stakeholders and is a tool to help position the organisation strategically and effectively in the marketplace. It is the extent to which organisations assume that economic, legal, ethical and discretionary responsibilities are imposed on them (Maignan & Ferrell, 2001). An organisation must realise that to remain productive and competitive in the challenging business world, it has to be socially responsible. The aims of the organisation are to increase its value while attempting to promote and improve its community. An ethical organisation helps society address its problems and contributes to its welfare by producing good products and services, creating jobs and providing a safe working environment. In addition, the organisation must respect and obey the laws imposed by the government. Likewise, the organisation's must be involved in addressing the society's needs in education, charities and the arts. In summary, an organisation must operate within the law, be ethical and fair, and be a good corporate citizen. The following section discusses Carroll's four faces of corporate citizenship culture.

### **Economic and Legal Citizenship**

Carroll (1979) defines CSR as the way organisations meet the economic, legal, ethical and discretionary (which also referred to as philanthropic) responsibilities while fulfilling the needs of their stakeholders. An organisation that surpasses economic and legal requirements has thereby assured itself a competitive advantage in terms of a greater expectation of and openness to external changes (Judge & Douglas, 1998; Klassen & McLaughlin, 1996; Yahya & Che Ha, 2013). Chahal and Sharma (2006, p. 211) concur that "in the hyper competitive atmosphere, growth, stability, economic existence and social orientation of an organisation strongly depends upon its ability to perform social responsibility towards community".

Carroll (1999) describes the CSR economic point of view as the organisation's obligation to produce goods and services in society and sell them for profit. Before an organisation can help multiple stakeholders in society, it must first be profitable and cost-effective because its economic performance supports the entire structure of CSR. Carroll affirms that securing economic viability is one of the ways an organisation provides for society. Dahlsrud (2007) defines economic citizenship as the socioeconomic or financial strategies that inform an organisation's business operation and preserve the organisation's long-term profitability. Such products and services could be produced to meet market needs

through the effective utilisation of resources to facilitate the building and sustaining of a competitive advantage (Porter & Kramer, 2006).

Legal from the CSR point of view implies that the organisation's must fulfil its economic mission within the legal requirements set by society, which interprets law as right and wrong. (Carroll, 1979). An organisation's social obligation goes beyond its strict legal obligations and takes into account the impact that business operations have on stakeholders other than its shareholders. Social obligation also involves the ideas of the "triple bottom line," that is, people, planet and profit (Elkington, 1997), which utilises economic, social and environmental benchmarks to measure corporate performance (Carroll & Buchholtz, 2003).

In other words, an organisation is expected to obey the law while making a profit, comply with societal laws and regulations, and meet economic responsibilities (Carroll, 2000). Additionally, the legal face of CSR reflects a view of "codified ethics" in that it embodies basic notions of fair operations as established by lawmakers and is viewed as coexisting with economic responsibilities as fundamental precepts of the free enterprise system (Carroll, 1979). In addition, the organisation is responsible for producing goods and services that contribute directly or indirectly to the protection of the environment or to social development while responding to stakeholders' concerns and needs. It is also responsible for capturing the opportunities offered by the market and conforming to the law and regulations (Carroll, 1979, 2000; Carroll & Buchholtz, 2003).

### **Ethical and Philanthropic Citizenship**

CSR is defined as open and transparent business practices based on ethical values that assist the organisation in attaining marketable achievement from the triple bottom line perspectives. Those perspectives emphasise the economic, social and environmental bottom-line success (<http://www.iblf.org/csr>). Carroll (2000) classifies ethical and philanthropic social obligation as the moral obligation of an organisation to its stakeholders.

Due to the current trend of globalisation, business organisations have realised that to compete effectively in a competitive environment, they must clearly define the business practices that focus on public interest. This is where an organisation's values influence its perceived social responsibility and are verified by societal activities. Aupperle, Carroll and Hatfield (1985) argue that this type of business practice can be appropriately evaluated from three non-economic perspectives: legal, ethical and discretionary. Furthermore, Quester and Thompson (2001) note that social goals in the long run are profitable because market forces grant financial incentives to socially responsible organisations.

Thus, in implementing a socially responsible business, an organisation must first acknowledge society's existence and society's growing demand for more ethically responsible business practices. An organisation's social obligation behaviours affect the way customers behave towards the organisation (Creyer & Ross, 1997; Nebenzahl, Jaffe, & Kavak, 2001). Furthermore, consumers tend to punish the immoral behaviour of an organisation and reward its ethical behaviour (Creyer & Ross, 1997). They are also more willing to purchase from and pay more to a socially responsible company than one that is socially irresponsible (Asongu, 2007; De Pelsmacker, Driessen, & Rayp, 2005). In contrast, the failure to recognise and respond to these responsibilities shows that the organisation has failed to adapt for its own long-term survival (Creyer & Ross, 1997).

The ethical point of view requires an organisation to abide by moral rules and to behave appropriately in society (Carroll, 2000). The organisation is expected to do what is right and reasonable, and avoid anything that will cause harm to society. Such responsibilities include providing employment opportunities for everyone, improving the environment and promoting worldwide justice. The organisation engages ethical businesses, and these ethical businesses guide the organisation's desire to do the right thing. Essentially, these businesses will help the organisation avoid the legal consequences of its actions and convince stakeholders that the organisation's concern includes serving the stakeholders' interest (Creyer & Ross, 1997).

Building on the development of the definitions of corporate citizenship discussed, corporate citizenship cultures in this study are defined as follows:

Classification	Elements
Corporate citizenship (Carroll, 1979; Maignan et al., 1999)	<ul style="list-style-type: none"> <li>▪ Economic, ethical, legal and discretionary responsibilities – <b>conceptualised as corporate citizenship culture</b> with the aims of creating higher standards of living and quality of life in the society in which the organisation operates</li> <li>▪ Organisations' active responsibility for their employees' lives, which also include organisations' internal and external activities that contribute to the well-being of society</li> <li>▪ Improving the employees' quality of life and society at large.</li> </ul>

### *Organisational performance*

Good performance is crucial to organisations. However, performing well is not enough in this current highly competitive environment. An organisation needs to

understand environmental issues and problems as important competitive differentiation elements and turn them into a source of competitive advantage. An organisation must make decisions that convert its objectives into actions and include environmental sustainability factors into its marketing strategies to create superior value and gain the competitive advantage that allows it to outperform its competitors. High-performing organisations contribute not only to the success of the organisation but also to the good of society by being good corporate citizens. The managers in these high-performance organisations are able to respond to changes in the environment, meet customer demands and requirements, modify work processes to enhance performance and finally contribute to the community.

Organisations engage in socially responsible behaviours to fulfil external obligations such as regulatory compliance and stakeholder demands and to increase competitiveness and improve stock market performance (Bansal & Roth, 2000; Drumwright, 1994; Klassen & McLaughlin, 1996; Russo & Fouts, 1997; Waddock & Smith, 2000). Likewise, Hanas (2007) contends that intangible values such as employee motivation and satisfaction, and brand loyalty are increasingly being linked to corporate performance.

## **CORPORATE CITIZENSHIP CULTURE AND ORGANISATIONAL PERFORMANCE**

Frederick (1960) defines social responsibility as a business overseeing the operation of an economic system that fulfils the expectations of the public and enhances the whole organisation's socio-economic welfare. Dahlsrud (2007) refers to these socio-economic or financial aspects that describe CSR in terms of an organisation's business operation and preserving the organisation's long-term profitability. Essentially, corporate strategy outlines the organisation's objectives, purpose or goals, policies and plans for achieving those goals. Ansoff (1980) contends that if organisations choose a strategy, it must be important to their development because such issues have a significant effect on their ability to meet their objectives.

Porter and Kramer (2006) emphasise that for organisations to undertake social responsibility and obligations in a strategic manner and make social and environmental contributions, they must also be able to create tangible business benefits: profit maximisation, sustainability and competitive advantage. Owen and Scherer (1993) indicate that socially responsible corporate actions affect market share and thus affect competitive advantage. Indeed, social responsibility/obligation is also a long-term investment decision that leads to win-win strategies (Berry & Rondinelli, 1998) in which the function of an organisation is said to have a social purpose consistent with the organisation's

long-term economic interests and sustainability. Corporate citizenship culture and corporate sustainability represent how organisations achieve enhanced ethical standards and balance the economic, environmental and social imperatives that address the concerns and expectations of their stakeholders (Yahya, 2011). Wilson (2003) describes this corporate sustainability as an evolving concept that managers adopt as an alternative to the traditional growth and profit-maximisation model. All of these factors contributes to good financial performance.

Organisations build better reputations and brand images in the social obligation process. A better reputation in business means better sales and more investors. Social performance progressively influences investors' decisions. Social and environmental responsibilities reduce operating costs, which leads to higher profits for the organisations (Yahya & Che Ha, 2013). Eventually, social obligation enables the strategic management of internal and external risks in social and environmental arenas. Social obligation process allows organisations to plan short-term strategy and maintain good organisational performance. In the long run, organisations win the confidence and loyalty of suppliers, business partners, and customers. As such, the products and services of the organisations increase to maximise profit. Organisations that address the concerns of most socially conscious consumers in their strategic and daily decision-making processes are able to place themselves at a competitive advantage. These practices are synchronised with the community's philosophy and sustainable development in a market-driven society.

Initially, the goals and objectives of organisations include earning society's trust by meeting the public's expectations and fulfilling their social responsibilities. Societies in general expect more from the organisations from which they purchase. Undoubtedly, the demand for environmentally friendly products has become a powerful force (Banerjee, 1998). Thus, by developing new products that are less environmentally damaging, organisations can take advantage of the growing market for environmental goods and services (Dechant & Altman, 1994). Additionally, Maxwell, Rothenberg, Briscoe and Marcus (1997) explain how organisations individually need to move beyond image-building by demonstrating a commitment to continued improvements in the environmental performance of their products and services. More importantly, however, there is growing evidence that shows that organisations that adopt proactive environmental management strategies have become more efficient and competitive in the marketplace (Burke & Logsdon, 1996). Furthermore, organisations that include ethical principles in their strategic decision processes have the best chances of gaining their stakeholders' trust and commitment (Hosmer, 1994). Therefore, based on these assumptions, this study postulates that:

- H1: Economic citizenship is positively related to organisational performance.
- H2: Legal citizenship is positively related to organisational performance.
- H3: Ethical citizenship is positively related to organisational performance.
- H4: Discretionary citizenship is positively related to organisational performance.

## **THEORETICAL FRAMEWORK**

The theory employed to develop the model for this study is derived from the stakeholders theory.

### **Stakeholder's Theory**

Clarkson (1995, p. 106) defines stakeholders as *"persons, or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past present or future."* Post, Preston and Sachs (2002) write that an organisation's ability to establish and maintain relationships within its entire network of stakeholders ensures its long-term survival. Relationships involve ongoing engagement and mutuality within the network of stakeholders that create, sustain, and enhance the capacity of organisations to create value (Clarkson, 1995). As such, stakeholders have a strategic and/or moral stake in organisations, and each is guided by his own interests and values. Therefore, organisations must align their CSR programmes with their stakeholders' CSR values (Maignan, Ferrell, & Ferrell, 2005). Porter and Kramer (2006) conceptualise CSR as encompassing a shared value that influences strategy and guides managers in their CSR decision-making (Pant & Lachman, 1998). Waldman, de Luque and Washburn's (2006) studies are grounded in the notion that values are strong mechanisms that shape actions.

CSR is the organisation and integration of social and environmental concerns into business operations and interactions with stakeholders. Ullmann (1985) asserts that the stakeholders theory and social obligation activity are linked by identifying the stakeholder's power, organisations' strategy, and organisations' past and present economic performance, which are connected through social disclosure and economic performance. Polonsky (1995) agrees that the stakeholders theory is appropriate for applying to environmental concern because it offers a process that permits organisations to develop an environmental strategy that satisfies both their goals and those of their stakeholders.

Fiol and Lyles (1985) and Doyle and Hooley (1992) agree that organisations' objectives originate from the pressures created by shareholders and other stakeholders. As such, the management of people and resources to meet stakeholders' needs and expectations would facilitate in building organisational objectives and sustaining the organisation's competitive advantage (Yahya, 2011). Likewise, Jones (1995) assents that organisations that develop relationships with stakeholders based on honesty, mutual trust, and collaboration are in a better position to gain an advantage over organisations that do not.

Organisations rely heavily on the societies in which they operate. To survive in the marketplace, organisations have to take responsibility for society. Indeed, an organisation is responsible not only to its shareholders (owners) but to all stakeholders (consumers, employees, creditors, etc.) who contribute to the organisation's success. Thus, an organisation should be held accountable for any actions that affect people, communities and the environment in which it operates. Thus, based on this view, organisations are like regular persons or citizens who are expected to be responsible and follow the principles of morality, accountability, and honesty with a much wider scope for potential contribution to and involvement in society (Frederick, Post, & St Davis, 1992; Freeman, 1984; Lodge, 1977).

Carroll's four-part model states that the core responsibilities of an organisation are economic and legal, that is, producing the goods and/or services required by society in a lawful manner and selling them at a profit. However, the organisation still has ethical and discretionary responsibilities. Failure to acknowledge these two responsibilities would allow society to bring the organisation under its legal system (Carroll & Buchholtz, 2003).

## **METHODOLOGY**

### **Data Collection and Pilot Test**

The sample frame is from the Bursa Malaysia. Stratified random sampling was used in which the population is first divided into manufacturing and service organisations. The units of analysis in this study are the publicly listed companies that practice CSR. The population of interest includes manufacturing and service organisations because products are classified as tangible and intangible goods. Manufacturing companies produce tangible goods, while service companies produce intangible goods. The target population is the upper level of the organisation's marketing hierarchy, with the managing director as the key informant. This unit of analysis was selected because the managing director is the

key person directly involved in an organisation's strategic decision making and is highly knowledgeable about the organisation's objectives and goals.

The survey was conducted in two waves. First, the questionnaires were distributed to several lecturers from the University of Malaya for comments on the layout, wording and content. At the same time, three managing directors were selected to answer the questionnaire to give feedback concerning comprehension, phrasing and design. Based on the feedback received, the respondents reacted positively to the questions, design and structure of the questionnaire. Nevertheless, there were some suggestions for the language and wording used to suit the business culture and environment in Malaysia. For the purpose of a pilot test, 27 questionnaires were distributed to the managers of various organisations, and based on the feedback, some items were reworded. Finally, the revised questionnaires were distributed to the respondents.

## **Measurement Scales**

### ***Corporate citizenship culture***

Corporate citizenship culture involves the efforts of business organisations to meet their economic and social responsibilities. Organisations become aware of their social responsibilities through stakeholder pressure. Managers are primarily responsible for the integration of corporate citizenship culture into organisational decision making. In addition, management must balance the interests of various stakeholders to achieve good corporate performance. The corporate citizenship culture constructs are included to confirm that the dimensions would create an economically, socially and environmentally sustainable future, which requires interaction and collaboration between people, companies and governments, where the measures by Maignan et al. (1999) are adopted for this study. The respondents were asked to appraise their organisations' corporate citizenship culture components and how the organisations manage their culture or values in terms of (1) the treatment of customers, (2) the treatment of the organisation's own people, or human capital, (3) the standards of organisational performance, and (4) the notions of accountability. For the purpose of data interpretation, the descriptive phrases for the scale were (7) "strongly agree", (6) "agree", (5) "slightly agree", (4) "neutral", (3) "slightly disagree", (2) "disagree", (1) "strongly disagree".

### **Organisational Performance**

The categories in the scales are to measure organisational performance and organisational effectiveness. Respondents were asked to state their organisations' performance in the last three years. A Likert Scale ranging from (1) Decrease of more than 20%; (2) Decrease of 11%–20%; (3) Decrease of 1–10%; (4) No

Change; (5) Increase of 1%–10%; (6) Increase of 11–20%; (7) Increase of more than 20% was used. The items consist of economic elements that reveal organisational objectives, purpose or goals, policies, and plans and define organisations' efforts in achieving those goals. The items also describe the nature of the noneconomic value that an organisation expects to contribute to its shareholders, employees, customers and communities, namely, growth in sales, growth in market sales, growth in new products/services development, brand loyalty, corporate reputation, overall employee commitment and overall performance measured by the firm's goals and objectives. Scales from Narver and Slater (1990) and Baker and Sinkula (1999) were used to assess organisational performance.

### **Sample and Data Collections**

As noted earlier, the sample frame is from the Bursa Malaysia. Stratified random sampling was used in which the population is first divided into manufacturing and service organisations. The biggest challenge in selecting the right sample was determining whether a company involved CSR in its strategic decision making and included innovation as one of the company's goals. The companies' characteristics were determined through their websites, their missions and objectives, and by calling the companies directly and asking whether they practiced CSR in their organisations.

Overall, only 261 respondents from 1379 of the total population (a response rate of 18.9%) were usable, and a total of 11 questionnaires were rejected. This response rate is considered satisfactory, as this scenario is no different from other surveys in Malaysia, which tend to obtain a standard response of between 15%–25% (Sarachek & Aziz, 1983; Othman, Abdul-Ghani, & Arshad, 2001). Table 1 depicts the profile of the organisations that can be considered to influence their opinion. Finally, the data collection process was completed with 261 questionnaires coded and used further for data analysis.

Table 1  
*Profile of the organisations (N = 261)*

Organisation's Profile	Number	Percentage
1. Type of Industry		
• Manufacturing/Processing of Industrial Goods	75	29%
• Manufacturing/Processing of Consumer Goods	105	40%
• Services	73	27%
• Agriculture	8	3%
2. Years in operations		
• 20 years above	90	35%
• 11–20 years	97	37%
• 10 years and below	74	28%
3. Years practicing CSR		
• 16–20 years	118	45%
• 11–15 years	72	28%
• 6–10 years	31	12%
• 1–5 years	40	15%
4. Total full time employees		
• Less than 50 employees	92	36%
• Between 51–150 employees	69	26%
• More than 150 employees	100	38%
5. Company sales turnover		
• Less than RM250,000.00	13	5%
• Between RM 251,000.00 – RM1 million	21	8%
• Between RM 1 million – RM 5 million	60	23%
• Between RM 5 million – RM 10 million	23	9%
• Between RM 10 million – RM 15 million	56	21%
• Between RM 15 million – RM 25 million	23	9%
• More than RM 25 million	65	25%
6. Ownership of Organisations		
• Bumiputra	108	42%
• Chinese	53	20%
• Indian	9	3%
• Government-owned	46	18%
• Foreign-owned	24	9%

*(continue on next page)*

Table 1 (continued)

Organisation's Profile	Number	Percentage
7. Positions		
• Top Management	40	15%
• Senior Management	65	25%
• Management Level	98	38%

The data collection method used self-administered questionnaires based on the fundamental constructs proposed in the conceptual model. These constructs were operationalised by multi-item measures using a 7-point Likert-Scales format, anchored by "Strongly Agree" (7); "Agree" (6); "Slightly Agree" (5); "Neutral" (4); "Slightly Disagree" (3); "Disagree" (2); "Strongly Disagree" (1) and the items used to quantify them were adopted from previously tested scales.

## RESULTS

To check and verify the four-factor solutions, an exploratory and confirmatory factor analysis was performed. The exploratory factor analysis (EFA) shows that a three-factor solution rather than four-factor solution is more stable. Economic citizenship and legal citizenship items form a single factor, reducing the factors extracted to ethical citizenship with 7 items, discretionary citizenship with 7 items and economic citizenship with 7 items. For this study, factor analysis under the extraction method of principal component analysis with the rotation method of varimax with Kaiser Normalisation was used to analyse the scales. Varimax rotation was used because it minimised the correlation across factors and maximised within the factors. This helped to yield 'clear' factors (Nunnally, 1978). Nunnally (1978) posits that items with loadings higher than 0.50 on one factor are retained for further analysis. As a result, 8 items were deleted. The entire new factors were checked for reliability: economic citizenship (0.90), ethical citizenship (0.91), and discretionary citizenship (0.85). Table 2 depicts the final items and loading used in this study with the mean value of 3.39, 4.48 and 6.32 for discretionary citizenship, economic citizenship and ethical citizenship, respectively. Both the Kaiser-Meyer-Olkin (KMO) test for measuring sampling adequacy and Barlett's Test of Sphericity display significant results. The result indicated the KMO value of 0.946 is greater than 0.5, which falls in the acceptable range and it considered highly satisfactory. Thus, the factor analysis is enabled for further analysis, and the Barlett's Test of Sphericity is significant at 0.000 levels. This means that there are intercorrelations among the variables.

Table 2  
Measurement model

Construct	Item <sup>a</sup>	Loading
<b>Economic Citizenship</b>	For Question 1–6: Our organisation:	
	• has a procedure in place to respond to every customer's complaint	.434
	• continually improve the quality of our products	.756
	• uses customer satisfaction as an indicator of our organisational performance	.641
	• has been successful at maximising our products and services	.731
	• strives to lower the operating costs	.745
	• closely monitors employees' productivity	.603
	• Top management establishes long-term strategies for our business	.630
<b>Legal Citizenship</b>	For Question 1–4: Our organisation:	
	• always honor our contractual obligations	.577
	• complies with all laws regulating hiring and employee benefits <sup>b</sup>	–
	• has programs that encourage a varied involvement of all the workforce (in term of age, gender or race) <sup>b</sup>	–
	• is opposed to internal policies of discrimination in employees' compensation and promotion <sup>b</sup>	–
	• Our managers are informed about relevant environmental laws <sup>b</sup>	–
	• All our products and services meet legal standards <sup>b</sup>	–
	• Our managers make an effort to comply with the law <sup>b</sup>	–

(continue on next page)

Table 2. (continued)

Construct	Item <sup>a</sup>	Loading
<b>Ethical Citizenship</b>	For Question 1–5: Our organisation:	
	• has a comprehensive code of conduct	.664
	• is recognized as a trustworthy company	.690
	• follows professional standards	.782
	• has in place a confidential procedure for employees to report any misconduct at work (such as stealing or sexual harassment)	.728
	• requires the salespersons and employees to provide full and accurate information to all customers	.603
	• Top managers monitor the organisation's potential negative activities that affect community	.638
	• Fairness toward coworkers and business partners is an integral part of our employee evaluation process	.588
<b>Discretionary Citizenship</b>	Our organisation:	
	• offers salaries higher than the industry average	–
	• supports employees who require additional education <sup>b</sup>	–
	• encourages employees to join civic organisations that support our community	.700
	• contributes adequately to charities	.625
	• has a program for employees on how to reduce the amount of energy and materials wasted	.631
	• encourages partnership with local businesses and schools	.577
	• supports local sports and cultural activities	.743
• has flexible policies that enable employees to better coordinate work and personal life	.571	

Note: a. Scales ranging from 1 (strongly disagree) to 7 (strongly agree) b. Items that were deleted

Table 3 captured all the results of Confirmatory Factor Analysis on the constructs in this study. The majority of the Comparative Fit Indices (CFI) and Tucker-Lewis Index (TLI) yield results of more than 0.94, indicating a very good fit model. Similarly, majority of the Goodness-of-Fit (GFI) also yield results above 0.93. Finally, the root mean square residual (RMR) also yield results below 0.05 which all the statistics indicating a good fit model. This suggests that convergent validity in this study is established.

Apart from assessing the overall fit of the measurement model, the critical ratio (t-test) for the factor loading is often used to assess convergent validity. This is because when the factor loadings are statistically significant, then the convergent validity exists (Dunn et al., 1994). The magnitude and direction of the estimated parameters between latent variables and their indicators are also examined for convergent validity (Steenkamp & Van Trijp, 1991).

Table 3  
Results of Confirmatory Factor Analysis

Construct	Chi-Square ( $\chi^2$ ); P value	CFI	GFI	TLI	RMR
Ethical Citizenship	3.456; 0.045	.951	.952	.968	0.029
Economic Citizenship	3.798; 0.000	.941	.939	.960	0.031
Discretionary Citizenship	1.914; 0.045	.979	.974	.985	0.022

The critical ratio (t-test) for all the estimated parameters exceeded the benchmark of  $\pm 1.96$ , which were also found to be statistically significant, and the standard error (S.E.) were not excessively large or small (Bryne, 2001). As such, the convergent validity exists for the study variables of the measurement models as the entire construct are highly correlated.

Garver and Mentzer (1999) posit that the convergent validity is tested by determining whether the items in a scale converge, or load together on a single construct in the measurement model. If there is no convergence, either the theory used in the study needs to be analysed, or the purification of measures needs to be implemented by eliminating the items. Thus, this paper applied internal consistency to measure the correlation of the items. Strong correlation was reported for ethical citizenship (.92), economic citizenship (.89) and discretionary citizenship (.84). Although the items are correlated with one other, discriminant validity was conducted to examine the extent to which a certain construct is different from other constructs (Chen, Aryee, & Lee, 2003). This means that items from one scale should not load or converge too closely with items from a different scale and that different latent variables that correlate too highly may indeed be measuring the same construct rather than different construct (Garver & Mentzer, 1999). Thus, relatively low correlations or no correlations between variables indicated the presence of discriminant validity. Therefore, average variance extracted was used. Based on Table 4, all the average variance extracted were more than or equal to 0.50, as suggested by Hair et al. (2006). Thus, discriminant validity was achieved among the construct of corporate citizenship culture.

Table 4  
*Internal consistency, square roots of average variance extracted and correlation matrix*

Construct	A	Ethical Citizenship	Economic Citizenship	Discretionary Citizenship
Ethical Citizenship	.92	<b>.50</b>		
Economic Citizenship	.89	.76**	<b>.57</b>	
Discretionary Citizenship	.84	.64**	.59**	<b>.50</b>

The dimensions of CSR, namely, ethical citizenship, economic citizenship and discretionary citizenship are tested against organisational performance. Table 5 shows the result of the hypotheses testing. The result indicates that ethical citizenship appeared to have the highest positive significant relationship with organisational performance ( $p \leq 0.05$ ). The results are consistent with Davenport's (2000) study that shows that organisational corporate citizenship is needed to balance the needs of all stakeholders while working to protect the environment and enhance organisational performance. CSR is a resemblance to the organisation working toward achieving sustainability and the triple bottom line, that is, people, planet and profit (Elkington, 1997; World Business Council for Sustainable Development [WBCSD], 1999). Ogrizek (2002) asserts that the CSR realms comprise an environmental management system, human resources policy and investment in strategic management necessary to be sustainable in the future. In other words, CSR is closely related to a theory of sustainability. It refers to the idea that socially responsible organisations will outperform their competitors by focusing on the nation's social problems and viewing them as opportunities to build profits and help the community at the same time. Without sustainability an organisation cannot survive. In fact, it is the organisation's obligation to preserve the ecological environment and general public interest because social concerns and environmental issues are now considered external issues. Therefore, the organisation needs to integrate social concern and environmental issues into its strategic decision-making process to confront environmental problems.

In this study, ethical citizenship is operationalised as the organisational culture that strengthens the collaboration on CSR. The result suggests that being ethical enhances organisational performance where businesses abide by the moral rules that define appropriate behaviour in a society through doing what is right and fair and avoiding actions that would harm society.

Economic citizenship discretionary citizenship also appeared to have a significant positive relationship with organisational performance ( $p \leq 0.01$ ). These dimensions improve the organisations' performance, such as meeting the obligations of business that involve maintaining economic wealth and meeting

consumption needs. In summary, the employees of socially proactive organisations can feel the bond with their employers, and they are supportive of the organisations' objectives. The employees enjoy working in an environment that enhances their workplace experience and whose goals go beyond profit maximisation. Berry (1995); George and Berry (1981) and Gilly and Wolfinbarger (1998) contend that corporate citizenship is an excellent tool for internal marketing. It is the way to motivate employees, to educate them about the organisation and to connect with them directly. Indeed, in Table 5, it was predicted that ethical citizenship (Beta = .21,  $p < 0.05$ ); economic citizenship (Beta = .18,  $p < 0.01$ ) and discretionary citizenship (Beta = .15,  $p < 0.01$ ) were significant predictors of organisational performance. Overall corporate citizenship culture contributed 24% to the prediction of organisational performance. The findings decisively indicate that organisations in Malaysia are responsible to the external and internal stakeholders and function as good corporate citizens.

Table 5  
*The direct effect of corporate citizenship on organisational performance*

Dependent Variable	Independent Variable	Hypothesised Sign	Direct Effect $\beta$	Support
Organisational Performance ( $R^2 = .24$ ) $t(8) = 2.887; p = 0.020$	Ethical Citizenship	+	.21**	Yes
	Economic Citizenship	+	.18*	Yes
	Discretionary Citizenship	+	.15*	Yes

Finally, Figure 1 depicts the structural equation model for corporate citizenship toward organisational performance in this study.

## IMPLICATIONS, FUTURE RESEARCH AND CONCLUSIONS

Our findings provide insight into how corporate citizenship is related to organisational performance. The findings emphasise the idea that socially and environmentally responsible organisations need the elements of corporate citizenship to enhance their organisational performance. Indeed, Eccles et al., (2013) argue that companies that incorporate social and environmental issues into their business models will perform better.

Furthermore, the study of corporate citizenship culture can improve managers' understanding of the impact of this culture in simultaneously strengthening the

relationship with stakeholders and boosting organisational performance. This study has attempted to provide a corporate citizenship model that can be used effectively in improving organisational performance. Furthermore, the assessments of the reliabilities and validities of each construct using CFA confirm the correspondence rules between both empirical and theoretical concepts (Bagozzi, 1984). Therefore, this study provides a useful direction for future empirical research into corporate citizenship model.

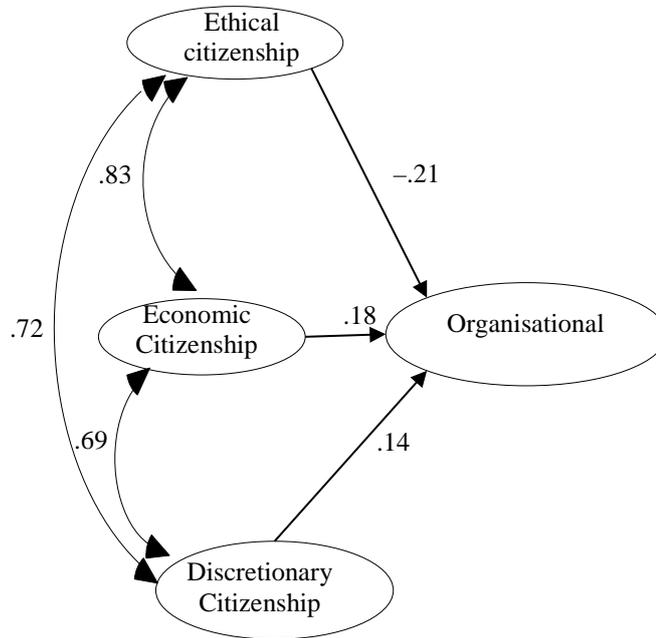


Figure 1. Structural equation model for corporate citizenship towards organisational performance

From a managerial perspective, this study highlights that being socially and environmentally responsible is not only good for society but also excellent for increasing and preserving shareholder value. As for practitioners, there is clearly a need to improve their corporate citizen activities and practices that particularly address the enhancement of consumer protection, product quality or provide incentives for their employees.

The results of this study also confirm that managers must pay more attention to CSR practices if organisations are interested in maintaining their competitive

edge in the market place. CSR activities or programmes are capable of strengthening and sharpening management's understanding of consumers and implementing strategies to engage them in those activities. Furthermore, through CSR, management is able to enrich its understanding of the business context in terms of the organisation's long-term future and to ensure that the organisation's market decisions depict the true costs spent on building sustainable organisations.

In general, an organisation-wide philosophy foundation requires the elements of corporate citizenship culture because that culture represents a basis of stakeholder management that should be embraced by the employees. As such, the corporate citizenship culture should be obviously and visibly transmitted to reflect the corporate reputation, identity and brand. Therefore, organisations must build social and ethical considerations into every level of their activities and in their daily practices. In conclusion, corporate citizenship is a strategy that improves the long-term performance of an organisation and contributes to society.

In summary, the theoretical model proposed in this study provides managers a fruitful way to strategise how organisations can apply corporate citizenship practices to enhance organisational performance.

When interpreting the findings from the study, some of the limitations should be mentioned. First, the generalisation of this study's findings may be limited to organisations registered under Bursa Malaysia and are practicing CSR. This raises the question of the representativeness of the sample. For that reason, future research should attempt to gather information from the organisations regardless of whether they are practicing CSR. Furthermore, a broader sample should include not only the managerial level but also non-managerial levels, so that any potential bias in the data will be minimised.

Second, this study does not make any comparison of the size of the organisations that practice CSR. Therefore, future research should consider the size of these organisations so that a comparison among large, medium and small organisations that practice CSR can be obtained. Organisations' CSR practices, strategy and performance implications evolve over time. Thus, information over a longer period of time could be more transparent and justified. In addition, it may be desirable to conduct a similar study directed toward collecting longitudinal data, which could give a detailed explanation of the activity and strategy.

To summarise, this study examines the relationship between corporate citizenship and the performance of Malaysian organisations. The overall findings of this study emphasise that corporate citizenship practices play important roles in enhancing organisational performance. It is hoped that the findings of this study will yield a better understanding of how organisations' performances affect a

society's perception of them. It should, therefore, help in changing organisations' behaviour to meet public expectations.

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