The Effective Strategies in Companies' Performance Using the Partial Least Squares Approach

Saed Adnan Mustafa[1]
[1]Business Administration Department Sur University College, Oman

ABSTRACT

Strategies have become important in companies in recent years to improve their companies performance this strategy has create a worthy interest on Public listed companies. Whereas previous research on the relationship between these strategies and company performance has largely been based on international data, this paper reviews the relationship between the adoption of the dimensions of corporate social responsibility, reputation and the companies' performance of Malaysian public listed companies. 200 questionnaires were received from a population that had already worked in Malaysian public listed companies. Using the partial least squares equation modeling as the approach to examine the model. Furthermore, this paper found a significant relationship between CSR, reputation and company performance. The findings imply the need for public listed companies to improve their performance.

1. INTRODUCTION

Malaysian Public listed companies are one of the most successful and dynamic sectors in Malaysia with a total capital of RM930 billion. Bursa Malaysia reported that the performance of PLCs has declined in the last two years. However, PLC performance based on total sales or revenue decreased in the sectors of finance, utilities, transportation, and other service sectors (such as telecommunications and hospitality). It was argued that the decrease of the performance was due to the weak contribution of the companies" strategies to the overall growth of the economy in supporting the sectors, which can be fully or partially attributed to the lack of practices and strategies (Hamid & Atan, 2011; Habidin, Fuzi, Desa, Hibadullah, & Zamri, 2012).

Previous studies suggested that CSR could be successful as a practical strategy to be used by PLCs to improve their performance. Recent studies by Saleh (2009) and Rahim et al. (2011) on Malaysian CSR also suggested that CSR could be an important strategy in helping companies to create and sustain their competitive advantage. Given this importance, there has been a comprehensive research work examining the

impact of CSR practices on company performance. In relation to that, there has been an increasing number of leading organizations globally adopting strategies such as CSR and reputation as their foundation to create a competitive advantage (Classon & Dahlstrom, 2006; Rundell at al., 2008; Goi & Yong, 2009) and also to improve company performance (Cochran & Wood, 1984; Dentchev, 2004; Habidin et al., 2012).

2. LITRETURE REVIEW

2.1. CSR in Malaysia

CSR practices in Malaysia can be viewed, as defined by Carroll (1991; 2011) in terms of four corporate responsibilities which are based on each other: 1) ethical responsibility; 2) legal responsibility to follow the law; 3) economic responsibility to be profitable; and 4) philanthropic responsibility to support diverse social, environmental, educational as well cultural objectives. In Malaysia, most of the CSR activities by companies only emphasize on philanthropic responsibility.

2.2. The Link Between CSR and Company Performance

Previous research showed that the findings of the CSR and company performance relationship turned out to be unconversable, calling for a comprehensive research work to be conducted in this area (Margolis & Walsh, 2003; Vogel, 2005; Classon & Dahlström, 2006; Kang, Lee, & Huh, 2010). While some studies empirically support the comprehensive of indirect as well as direct relationships between CSR practices and company performance (Cochran & Wood, 1984; Ullmann, 1985; Burke & Logsdon, 1996; Preston & O"Bannon, 1997; Margolis & Walsh, 2003; Dentchev, 2004; Classon & Dahlstrom, 2006) other studies (Ingram & Frazier, 1980; Rockness, Schlachter & Rockness, 1986; Johnson & Greening, 1999; Jensen, 2001; King & Lenox, 2001; Margolis & Walsh, 2001; Barnett, 2007) questioned the CSR strategy effectiveness.

2.3. Reputation and Company Performance

Reputation becomes one of the most critical strategies and enduring assets that a corporation and indeed people that comprise it may possess a good reputation. Reputation is an intangible asset and intangible asset is now increasingly seen as drivers of corporate advantages and sustainable competitive business. Therefore, this paper attempt to examine the effects of the relationship of one of the main organizational variables, reputation, in establishing the fit for this strategy, hence better company performance.

2.4. Research Method

A questionnaire survey was carried out to be collected from Malaysian public listed companies based on the view of top management. Our target populations include all of the public listed companies in Malaysia without referring to any specific group of companies. Although the Malaysian public listed companies have a combined population of 944 companies, due to time constraints, a total of 225 companies were selected as our respondents, with 200 companies fully engaged in the study. The questionnaires were conveniently distributed to top management in different states in Malaysia including Kuala Lumpur and Selangor. Roscoe (1974) recommended that sample sizes larger than 30 and less than 500 are appropriate for most studies. The obtained data were analyzed using the SPSS software version17.0 and Partial Least Squares (PLS).

2.5. Measurement of Variables

Before the questionnaire was finalized, it was pre-tested so that any problems and weaknesses in the questions, as they relate to the research setting, could be identified. To enable the pretesting, 40 of the top management were contacted by telephone from 40 different companies and 30 of them agreed to participate in the pre-test. The principal researcher then made appointments with them. As an outcome of this process, the questions were modified in order to better reflect the local cultural situation. A final questionnaire was then prepared for data collection.

In the present paper CSR consists of four dimensions: legal, economic, ethics and philanthropic. Each dimension has 7 items totaling 28 items. The measure for company performance has 6 items adopted from Sin et al. (2006) and Olalekan (2011). Finally, 5 items adopted from Kim (2001) and Nguyen & Leblanc (2001) to measure reputation. A 5-point Likert scale "strongly disagree = 1, to "strongly agree = 5" was used. All measures used were assessed for internal consistency as well as discriminant and convergent validity. The internal consistency results indicate that the consistency for each measure is high given the level of the Cronbach scores achieved (Nunnally, 1978).

3. RESULTS AND DISCUSSION

3.1. Convergent Validity and Reliability

The convergent validity of the measure is defined as the degree to which a set of items converge consistently to measure a particular concept. It can be measured through average variance extracted (AVE), composite reliability (CR) and factor loadings criteria (Hair et al., 2010). To establish that, we examined the items' cross-loadings and factor loadings to identify if there are problems related to some items. The cutoff value of 0.7, was used to assess the goodness of items' loadings, as suggested by (Hair et al., 2010). As presented in Table 1, all the items' loading exceeded the recommended value of 0.7 as suggested by (Hair et al., 2010). In other words, results in Table 1 shows that all the items highly loaded on their respective factors when to compare to their loadings on other factors.
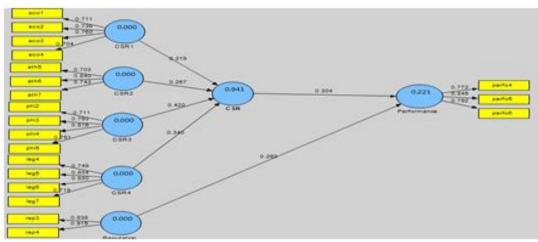

Figure-1. The Path analysis results

Next step, of convergent validity, was examined the composite reliability as an important aspect. The composite reliability refers to the extent to which a set of items indicates consistently the latent construct (Hair et al., 2010).

As illustrated in Table 1, the composite reliability ranged from 0.84 to 0.89 which exceeds the recommended value of 0.7 thus indicates an appropriate convergent validity (Hair et al., 2010; Fornell & Larcker, 1981). Additionally, the average variance extracted (AVE), which refers to the average variance extracted among a set of items, was examined. In fact, AVE can be used to compare the variance captured by the indicators with the variance assignable to the measurement errors. As suggested by Barclay et al. (1995) values of AVE higher than 0.5 indicate that the set of items has an appropriate convergence in measuring the concern construct. Based on the results of Table 2, the values of average variances extracted (AVE) of all the constructs were ranged between 0.580 and 0.769. Thus the measures used have an appropriate level of convergent validity.

Table-1. Results of Measurement model

Model Construct	Measurement Items No	Cronbach's Alpha	C.R	AVE
CSR	15	.87	.89	.580
Reputation	2	.71	.87	.769
Performance	3	.73	.84	.645

3.2. Discriminant Validity

The next step was to examine the discriminant validity of the measures.The discriminant validity of the measures refers to the degree to which items can differentiate among constructs. Meaning that, a particular construct shares higher variance with its own items than other constructs' items. To say the same in a different way, the items measuring constructs don't overlap (Compeau et al., 1999). As illustrated by Table 2, the AVE for each construct, is higher than the cross-correlation between that construct and other constructs. From the convergent validity and construct validity analysis, the construct validity of the measure can be concluded.

Table-2. The discriminant validity of constructs

	CSR	Reputation	Performance
CSR	.580		
Reputation	0.386585	.796	
Performance	0.404208	0.377683	.645

3.3. Testing the Research Model

The results of the study showed that CSR and reputation were found to have a positive significant effect on Company performance with indicators (B = 0.151, t-value=2.896, p< 0.001), (B = 0.199, t-value=3.164, p< 0.01). These results indicated that H1 and H2 were supported by the results of the study.
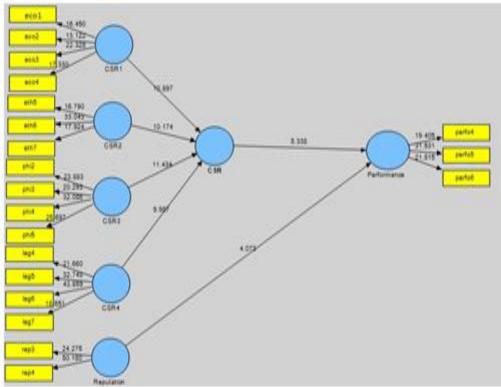
Figure-2. T-Values for the Path Analysis Results

Table-3. Hypothesis result

Hypo	From	To	Path Coefficient	T-value	Decision
H1	CSR	Performance	0.304	5.338	Supported
H2	Reputation	Performance	0.206	4.073	Supported

These results, moreover, confirm the importance of these two strategies in explaining the variance in Malaysian companies performance, Other studies conducted by Tsoutsoura (2004); Ribstein (2005) and Brine et al. (2006) found that CSR did indeed improve company performance. The CSR activities could be viewed as a differentiation strategy that may lead to a unique and different concept from other companies which do not implement CSR. When the companies are perceived unique and different from consumers, this will lead to having a brand and unique image, which will usually translate to higher profits and sales. The literature in marketing revealed that a good reputation reinforces and improves sales force effectiveness, new product development and strategies of recovery in case of crises (Dowling, 2001). Benjamin and Podolny (1999) also revealed that quality investments conducted by California wineries with good reputation achieve higher pay-off. It is recommended that besides focusing on reputation, public listed companies in Malaysia should also participate in developing CSR strategy. This way, the Malaysian public listed companies are more able to get higher sales and profits.

3.4. Further Research

The data and results reported in this paper were based on a single country, Malaysia. Thus, they are applicable specifically to the Malaysian context. This raises inquiries regarding the generalization of the findings for other cultures and contexts. Consequently, further research is needed in several other countries since this would help to advance the understanding of the reputation and CSR affecting issue and the conditions of achieving it from different international origins in different contexts.

4. ACKNOWLEDGEMENTS

REFERENCES

Barclay, D., Higgins, C., & Thompson, R. (1995). The partial least squares (PLS) approach to causal modeling: personal computer adoption and use as an illustration. Technology studies, 2(2): 285-309.

Barnett, M. L. (2007). Stakeholder influence capacity and the variability of financial returns to corporate social responsibility. Academy of Management Review, 32(3): 794-816.

Benjamin, B. A., & Podolny, J. M. (1999). Status, quality, and social order in the California wine industry. Administrative Science Quarterly, 44: 563–589.

Burke, L., & Logsdon, J. M. (1996). How corporate social responsibility pays off. Long Range Planning, 29(4): 495-502.

Brine, M., Brown, R., & Hackett, G. (2006). Corporate social responsibility and financial performance in the Australian context. Australian Treasury, 47-58.

Cochran, P. L., & Wood, R. A. (1984). Corporate social responsibility and financial performance. Academy of Management Journal, 27(1): 42-56.

Carroll, A. B. (1991). The pyramid of corporate social responsibility: toward the moral management of organizational stakeholders. Business Horizons, 34(4): 39-48.

Carroll, A. B., & Buchholtz, A. K. (2011). Business and society: ethics, sustainability, and stakeholder management. South-Western Pub.

Classon, J., & Dahlström, J. (2006). How can CSR affect company performance?: a qualitative study of CSR and its effects. Published thesis Karlstads University Sweden.

Compeau, D.R.; Higgins, C.A.; & Huff, S. (1999). Social cognitive theory and individual reactions to computing technology: a longitudinal study. MIS Quarterly, 23(2): 145–158.

Dowling, G.(2001). Creating corporate reputations. New York: Oxford University Press.

Dentchev, N. A. (2004). Corporate social performance as a business strategy. Journal of Business Ethics, 55(4): 395-410.

Fornell, C., & Larcker, D.F. (1981). Evaluating structural equation models with unobservable variables and measurement error. Journal of Marketing Research 18(1): 39-50.

Goi, C. L., & Yong, K. H. (2009). Contribution of public relations (PR) to corporate social responsibility (CSR): A review on Malaysia perspective. International Journal of Marketing Studies, 1(2): 46.

Hair, J. F., Black, W. C., Babin, B. J., Anderson, R. E., & Tatham, R. L. (2010). Multivariate data analysis. Prentice Hall Upper Saddle River, NJ, 7.

Hamid, F. Z. A., & Atan, R. (2011). Corporate social responsibility by the Malaysian telecommunication firms. International Journal of Business and Social Science, 2(5): 198-208.

Habidin, N. F., Fuzi, N. M., Desa, A. F. N. C., Hibadullah, S. N., & Zamri, F. I. M. (2012). Corporate social responsibility practices (CSRP) and ISO 26000 performance efforts in Malaysian automotive industry. International Journal, 1(1): 21-33.

Ingram, R. W., & Frazier, K. B. (1980). Environmental performance and corporate disclosure. Journal of Accounting Research, 18(2): 614-622.

Johnson, R. A., & Greening, D. W. (1999). The effects of corporate governance and institutional ownership types of corporate social performance. Academy of Management Journal, 42(5): 564-576.

Jensen, M. C. (2001). Value maximization, stakeholder theory, and the corporate objective function. Journal of Applied Corporate finance, 14(3): 8-21.

King, A. A., & Lenox, M. J. (2001). Does it really pay to be green? an empirical study of firm environmental and financial performance: an empirical study of firm environmental and financial performance. Journal of Industrial Ecology, 5(1): 105-116.

Kim, Y. (2001). Searching for the organization-public relationship: a valid and reliable instrument. Journalism and Mass Communication Quarterly, 78(4): 799-815.

Kang, K. H., Lee, S., & Huh, C. (2010). Impacts of positive and negative corporate social responsibility activities on company performance in the hospitality industry. International Journal of Hospitality Management, 29(1): 72-82.

Margolis, J. D., & Walsh, J. P. (2001). People and profits?: the search for a link between a company's social and financial performance. Psychology Press.

Margolis, J. D., & Walsh, J. P. (2003). Misery loves companies: rethinking social initiatives by business. Administrative Science Quarterly, 48(2): 268-305.

Nunnally, J. (1978). Psychometric Theory, (2nd Edn.). New York: McGraw-Hill.

Nguyen, N., & LeBlanc, G. (2001). Image and reputation of higher education institutions in students" retention decisions. International Journal of Educational Management, 15(6): 303-311.

Olalekan, A. O. (2011). Human rights, human wrongs and the rule of law: analysis and action. Journal of Social Science and Public Policy, 2(3): 58-75.

Preston, L. E., & O"Bannon, D. P. (1997). The corporate social-financial performance relationship. Business and Society, 36(4): 419-429.

Roscoe, J. T. (1974). Fundamental research statistics for the behavioral sciences. Holt, Rinehart and Winston.

Rockness, J., Schlachter, P., & Rockness, H. O. (1986). Hazardous waste disposal, corporate disclosure, and financial performance in the chemical industry. Advances in Public Interest Accounting, 1(1): 167-191.

Ribstein, L. E. (2005). Accountability and responsibility in corporate governance. University of Illinois Legal Working Paper Series, 34.

Rundle-Thiele, S., Ball, K., & Gillespie, M. (2008). Raising the bar: from corporate social responsibility to corporate social performance. Journal of Consumer Marketing, 25(4): 245-253.

Rahim, R. A., Jalaludin, F. W., & Tajuddin, K. (2011). The importance of corporate social responsibility on consumer behaviour in Malaysia. Asian Academy of Management Journal, 16(1): 119-139.

Saleh, M. (2009). Corporate social responsibility disclosure in an emerging market: a longitudinal analysis approach. International Business Research, 2(1): 131-143.

Sin, L. Y., Tse, A. C., & Chan, H. (2006). The Effect of Relationship Marketing Orientation on Business Performance in the Hotel Industry. Journal of Hospitality and Tourism Research, 30(4): 407-426.

Tsoutsoura, M. (2004). Corporate social responsibility and financial performance. Haas School of Business University of California at Berkeley.

Ullmann, A. A. (1985). Data in search of a theory: a critical examination of the relationships among social performance, social disclosure, and economic performance of US firms. Academy of Management review, 10(3): 540-557.

Vogel, D. (2006). The market for virtue: The potential and limits of corporate social responsibility. Brookings Inst Press.