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STATE-DRIVEN CORPORATE SOCIAL RESPONSIBILITY? MEDIATING OFFSHORE OUTSOURCING AND CSR IN MALAYSIA

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STATE-DRIVEN CORPORATE SOCIAL RESPONSIBILITY? MEDIATING OFFSHORE OUTSOURCING AND CSR IN MALAYSIA.

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Abstract

Offshore outsourcing of business activities from the Global North to the Global South does not only relocate investments and jobs, but has also brought about new business demands on suppliers activities and their social and environmental impact. The article explores whether, how and why offshore outsourcing transactions between foreign firms and Malaysian firms affect the upgrading of the CSR activities of Malaysia incorporated firms, taking the particular institutional context of Malaysia into consideration. The focus is on recipient country vendors, contract manufacturers or subcontractors and their reception of and strategising about corporate social responsibility. The findings of the study indicate, firstly, that the amount of foreign (sub)contracting influences the CSR strategising of domestic firms while the global value chain position is only conditioning the offshore outsourcing portfolio. Secondly, both the corporate governance of Malaysian affiliate and the Malaysian government play an important role shaping the perception, rhetoric and organisation of CSR activities by firms in Malaysia with a domestic value chain position. Hence, firms in Malaysia are squeezed by international business linkages and the local institutional context.

Key words: Corporate Social responsibility (CSR), outsourcing, corporate governance, Malaysia.

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1. Introduction

In the Global North, Corporate Social Responsibility (CSR) has been conceived as a voluntary and corporate-driven agenda. The CSR agenda is seen as aiming to fill the vacuum in international business regulation following from the globalisation of economic activities and the liberalisation and deregulation of economies in favour of the liberal market mechanisms (Pedersen 2006). Yet, the business community has not been the sole agent in the ‘market of virtue’ (Vogel 2004). Civil society organisations have played a prominent role in consumer activism, environmental movements, anti-sweatshop campaigns, and fair trade initiatives. Instead of corporate social responsibility, the NGO agenda has been articulated as ‘corporate social accountability’ emphasising the rights of consumers, employees, and citizens around the world and the duty of TNCs to comply with these rights.

However, in developing countries the CSR agenda is different from the North because, as argued by Prieto-Carrón et.al. (2006), in the North the challenge is to move beyond the existing legislation, while the CSR challenge in the South is to make firms comply with the legislation. However, such an assessment assumes that the state is weak and incapable of enforcing its own legislation while the Northern states are able to secure compliance with their tougher legislation. This premise may be right in many countries, but its assumption that the state is weak and even on retreat may not be the case in all developing countries (Weiss 2003). In fact, the reverse case seems to evolve in Malaysia, where state agencies seem once again to play a crucial role in adopting and transforming the CSR discourse in line with the development strategy of the state and the interests of the government. Neither local firms, nor local civil society groups may have the interests or courage or capabilities to further the CSR agenda beyond the policies of the government.

In a seven-country study of CSR web site reporting in Asia, including Malaysia, Chapple and Moon (2005) conclude that “multinational companies are more likely to adopt CSR than those operating solely in their home country but that the profile of their CSR tends to reflect the profile of the country of operation rather than the country of origin” (op.cit. 415). However, they acknowledge that sector varieties may explain their findings, and that public policy on corporate governance may also influence the evolution of the CSR agenda. Moreover, cross-border multi-cultural conditions and micro-level strategies of management may impact on CSR conceptions and practices. Overall, Chapple and Moon designate the interplay between globalisation, national business systems and domestic CSR profiles to be a knowledge gap and a research topic.

In order to explore international and domestic drivers of enterprise-level CSR perceptions and institutions, the article will undertake an analysis of the emergence of the CSR agenda in Malaysia in the perspective of offshore outsourcing of production and services from the North to the South. For Malaysia, an industrialising country in transition from a labour intensive to a technology intensive economy, Northern offshoring and/or outsourcing has played a crucial role in a deliberate government strategy of catching up; and with the rise of the corporate governance agenda after the financial crisis 1997-98, corporate social responsibility was easily added. More specifically, the objective of the discussion paper is *to explore whether, how and why the inter-firm dynamics of offshore outsourcing transactions between foreign firms and Malaysian firms (indigenous or domestic) affect the upgrading of the CSR activities of Malaysia incorporated firms, taking the particular institutional context of Malaysia into consideration.*

The focus is on recipient country vendors, contract manufacturers or subcontractors and their reception of, strategising about and organisational adoption of corporate social responsibility activities. The hypotheses are, firstly, that the responsiveness of Malaysian firms depends on the nature of their global value chain (GVC), that buyer-driven value chains elicit such responses while producer-driven value chains do not. Secondly, that recipient

country firms are responding re-actively and not pro-actively to foreign CSR demands, if they are responding at all. However, the findings of the study indicate, firstly, that the amount of foreign (sub-) contracting influences the CSR strategising of domestic firms while the global value chain position is only conditioning the offshore outsourcing portfolio. Secondly, that both the corporate governance of Malaysian affiliate and the Malaysian government play an important role shaping the perception, rhetoric and organisation of CSR activities by firms in Malaysia with a domestic value chain position. Hence, firms in Malaysia are squeezed by international business linkages and the local institutional context.

The paper is structured in the following way: Section two shortly outlines the methodology applied in the article. Section three elaborates and deliberates on relevant theoretical approaches and the analytical framework applied. Section four locates the micro-level and business discussion in the institutional environment and not least political initiatives that have facilitated the emergence of a CSR debate and agenda in Malaysia. In section five the empirical data about nine firms with operations in Malaysia are analysed and the interplay between offshore outsourcing and CSR is discussed. Section six winds up the analysis and concludes the argumentation.

2. Methodology

The study was framed in a GVC perspective, taking CSR to be a new and emerging quality standard developed by chain leading firms in the North, and applied as pre-qualification standard for suppliers in developing countries (see section 4). Hence, the working hypotheses was that CSR issues were raised by Northern customers and especially principal firms located in buyer driven GVCs, while CSR was given less attention by chain leaders in producer-driven GVCs. At the recipient end, developing country firms were supposed to take a re-active strategy toward CSR and otherwise neglect the CSR discourse perceived as a Northern agenda.

The literature review on the CSR discourse in Malaysia and CSR-oriented social research disclosed that a CSR agenda was emerging especially after the East Asian financial crisis, and that the government and government-linked institutions and corporations seemed to promote the CSR agenda. Yet, corporate social involvement, social reporting, and social performance had also been issues of the past (Teoh and Thong, 1981; Teoh and Thong, 1986; Abdul Rashid and Abdullah, 1991; Abdul Rashid and Ibrahim, 2002). More recently, surveys of CSR attributes of Malaysian companies have been conducted by ACCA (Tay 2006), Amran (2006), Business Ethics Institute of Malaysia (New Straits Times, April 2006) and Ramasamy and Hung (2004), while Zulkifli & Amran (2006) undertook a small interview based and qualitative investigation of the CSR awareness of accounting professionals. Even international surveys have been undertaken based on investigation of corporate websites (Chapple & Moon 2005) or written policies of large corporations (Welford 2005). However, few case studies have been conducted, and they were directed towards foreign TNCs like Swedish SKF with manufacturing operations in Malaysia (Johansson, E. & Larsson, P. 2000). No published case-oriented field studies of locally owned Malaysian companies had been identified. Hence, an explorative type of a multiple case studies was appropriate.

The identification, selection, and accession of Malaysian companies posed the biggest problem. No public register of Malaysian firms contracting or subcontracting business activities from Northern firms was available, and the same was the case regarding Malaysian firms with a CSR profile. We decided to establish two classes of manufacturing firms, acknowledging the dual angles and potential drivers of the offshore outsourcing (OO)-CSR nexus: OO influencing CSR, and CSR influencing OO.

The first class of firms comprised known companies with domestic offshore and/or outsourcing activities in Malaysia, including foreign owned as well as joint ventures and locally owned firms. The second class of firms included domestically based firms with a published record of CSR activities, based on the ACCA annual contest on corporate social and environmental reporting in 2005 (ACCA's Malaysia Environmental and Social Reporting Awards (MESRA) 2005, report of the judges). The two lists contained foreign, JVs and local firms spread all over the country and we decided to go for domestically incorporated firms located in and around the capital, Kuala Lumpur, and the Klang Valley. Having identified local firms with either a subcontracting activity or a CSR profile, we had to work hard to get access and interviews. In several cases, firms declined to participate, apologising for not having time due to finalising annual accounts etc. In some cases, firms preferred a telephone interview, and in other cases firms volunteered to answer a questionnaire.

We ended up with nine completely covered firms of which three were selected based on the ACCA list (CSR profile) in addition to one firm identified from a newspaper article about its environmental engagement. The five other firms were part of the supplier list. A last (10th) firm was selected because it had one of the two Malaysia-based UN Global Compact firms among its affiliated companies. A few companies were approached based on former research contacts. In sum, we obtained access to a small theoretically sampled set of manufacturing firms, which varied across several industries (from food over chemical and pharmaceutical to electronics and automobile component suppliers). Such a multiple case sample can be used to analyse similarities and differences between multiple configurations of OO and CSR properties of particular Malaysian manufacturing firms (Ragin 1987). Yet, all but one firm belonged to the category of large firms if the cut-off point of SMEs is set below 250 employees.

The data obtained from the case firms do not match a real case study - understood as research which provides a detailed picture of the structure and dynamics of the firm in its real surroundings. Only one interview was undertaken and often with the person in charge of CSR or in a higher executive position. Additional data were provided (company reports, booklets etc.) by the respondents or retrieved from company web pages, press reports etc. No factory visits were carried out in any case. So the material is very much data which disclose how executives perceive of and understand the CSR problem area while they are treated as representatives of the company concerned. Such data may picture the subjective world of the company officers but not articulate a more complex and diverse understanding of the company situation and change.

The data are finally classified and analysed in a theoretical framework which has been modified according to field experiences and data accessibility. The key concern is to secure the multi-dimensional complexity of the problem area by way of establishing the particular configuration of the specific firm, thereby enabling comparison between firms and groups of firms. These comparisons can then be used to test hypotheses about offshore outsourcing and CSR in Malaysian businesses, and/or build new hypotheses and explanations of the OO-CSR nexus. The premises of the analysis are laid down by the construed, modified, and applied theoretical framework.

Finally, a few interviews were made with representatives from Malaysian institutions and organisations which appeared to relate to the emerging CSR agenda, e.g. the Security Commission, the Kuala Lumpur Stock Exchange (KLSE)/Bursa Malaysia (which in fact also was a company) and the ACCA organisation. Moreover, interviews were undertaken with the Malaysian Automotive Association (MAA), as some case firms operated in the automotive sector, the National Union of Transport Equipment and Allied Industries Workers (NUTEAIW), and the Malaysian Trades Union Congress (MTUC). The Federation of Malaysian Manufacturers (FMM) declined an interview.

3. Theoretical framework

One of the main contributing factors to the debate of CSR has been the lack of consensus on what the concept really meant. Some definitions deal with the issue of what range of economic, legal or voluntary matters fall under the purview of a firm's social responsibilities; other definitions attempt to identify the social issues for which the firm has a responsibility, such as occupational health and safety, environmental protection, and discrimination; another group of definitions is more concerned about the manner of the response to social issues rather than with the kind of issues that are to be addressed. Carroll (1979) and Strand (1983) have attempted to build conceptual frameworks of corporate performance to clarify and integrate all these distinctive definitions of CSR, based on an accepted theoretical paradigm of stimulus-processing-response.

Nevertheless, it remains a very debated and unsettled issue whether progressive CSR policies and practices correspond or cause higher profitability and business performance in a wider sense. Vogel (2005) argues that research is rather inconclusive on the matter of CSR's effect on business performance. Moskowitz (1972) sees a socially responsible firm as having minimal explicit CSR costs but enjoying derived implicit benefits such as high staff morale and improved productivity, whereas Vance (1975) argues that a firm that incurs costs on its social responsibility initiative is at an economic disadvantage compared to another firm that is less responsible. A third argument is that, although the CSR costs are significant, they will be offset by reduction in other operating costs, such as a firm that is responsible to its staff's health and safety seeing a decrease in its other explicit operating costs such as production delays, absenteeism and breakdowns (Cornell & Shapiro, 1987). The last perspective argues that CSR serves as an indication of the management skills for the stakeholders; for instance, adopting a CSR agenda will provide a good image to the firm's management and eventually will result in a decrease in costly explicit claims by the stakeholders (Alexander and Bucholtz, 1978).

In a development perspective, Prieto-Carrón et.al. (2006) contend that the literature is quite biased in favour of CSR's profit-enhancing effects and positive benefits for multiple stakeholders, while CSR interventions in the South may as well impact negatively on populations in developing countries. Hence, the research agenda is in need of critical studies that look at impact in a power, class, and gender perspective while contextualising the understanding of CSR dynamics. In the case of Malaysia, Loh undertook a survey among publicly listed companies of the KLSE/Bursa Malaysia, and although his main focus was on corporate governance, he concluded that ethical business practices correlated both with good business leadership and good corporate governance, and also with good financial performance during the 1990s (Loh, 2006:235).

Pursuing the critical CSR & development agenda lining CSR to poverty alleviation, Newell & Frynas (2007:670) contend that we have to differentiate between business-as-usual and business-as-CSR, that is, CSR as a business tool, and CSR as a development tool. The authors state that the pertinent questions are: "how, when and through what means business can help to reduce poverty, while recognising the equally powerful potential of the business community to exacerbate poverty" (Newell & Frynas 2007:672).

Yet, it makes less sense to do impact studies if we are ignorant about the motives, the content and the process by which CSR initiatives are generated and implemented. The critical complexity starts with the variety of motives behind CSR strategies, policies, and practices, be they cost oriented, investment oriented or more ethically or morally founded. Moreover, articulated motives may also be influenced by the actual performance of the company in the

sense that CSR practices may be upgraded when the firm makes a satisfactory (or increased) profit or turnover.

However, taking a Global Value Chain (GVC) perspective on the OO-CSR problem area implies that an inter-firm level of analysis takes priority both for the individual (intentional) level and for the contextual institutional analysis, although there are calls for a more balanced approach regarding the political economic context and structure vis-à-vis the global value chain (Bair 2005).

When the principal OO firms subscribe to CSR codes of conduct in their OO activities they add new knowledge and information requirements and raise the demands to upstream suppliers, downstream buyers/dealers, and logistic/transporting firms. Hence, in a GVC perspective the OO-CSR nexus can be analysed as two interlinked sets of transactions where each can be described in accordance with three dimensions of business transactions: 'complexity', 'codifiability', and supplier 'capability' (Gereffi et. al. 2005). The configuration of these properties is taken to explain the type of governance practice and, by implication, the space for local firms to upgrade in terms of market position, product quality, process efficiency, functional assignments, and alternative value chains.

Adding the institutional context, which provides for both information and knowledge spill over as well as for collective action and, hence, for some kind of 'collective efficiency', new explanatory factors are to be included. Moreover, the question of strategy and capability of the principal OO firm is not made explicit in the GVC framework, presuming probably that the principal OO firms possess high capability and decide the most appropriate type of governance in accordance with the transactional complexity and codifiability, and the capability of the supplier firm (Wad forthcoming). But in a developing country context principal OO firms do not by necessity possess high capability vis-à-vis the transaction concerned, and as such it is a matter of empirical investigation. Hence, both the principal and the recipient OO firm could pursue an offensive/proactive strategy or defensive/reactive strategy in order to improve its competitive position in a GVC perspective - offensive/proactive by way of CSR upgrading ahead of competitors, or defensive/reactive by complying with CSR requirements when they become obligatory or otherwise evading CSR claims by way of offshore outsourcing to non-CSR embedded locations (Rasiah, personal communication 2006).

The lead firm-contracting firm relationship can be understood using the principal-agent analysis. Agency theory assumes that individuals are self-interest creatures. In order to avoid opportunism, it is necessary to provide the agent with incentives to act in accordance with the principal's interests. This can be done either by monitoring behaviour or rewarding outcomes. From a global value chain perspective, the lead firm secures compliance with the offshore outsourcing cum CSR contract through monitoring and sanctioning against non-compliance (opportunism). Opportunism in relation to codes of conduct and other CSR standards becomes relevant due to the fact that these initiatives can be costly and time consuming.

Opportunism can easily be dealt with if the codes of conduct include all contingencies. However, most codes of conduct are incomplete, lack efficient monitoring systems, display ambiguous and non-specific intent and purpose. Therefore, the potential conflict of interest between the companies and the incomplete nature of codes of conduct make it relevant for the initiator of the codes of conduct (i.e. the lead firm) to safeguard from non-compliance on part of its contractor. Safeguards, or protective mechanisms, are basically means to ensure that an agent fulfils his or her obligations according to the agreement (Koch, 1995).

Pedersen (2004) discusses six safeguards for securing compliance with codes of conduct in global supply chains which all apply to OO cum CSR activities in GVCs: Direct sanctions; goal congruence; third party intervention; trust; and reputation effects. These mechanisms can be related to the GVC types of governance. *Direct sanction* (e.g. termination of contract)

depends on the interdependence of the OO firm and the contractor and will be more effective in market based and captive governance, but may transform the transaction into onshore in-sourcing if no alternative contractors are available offshore and onshore (hierarchy governance). Generating *goal congruence* may be one of the most effective ways of reducing or eliminating opportunism, but also quite expensive requiring joint investment, training and technical support, and long-term contracts (applicable in captive, relational, modular types of governance). *Trust* is a safeguard being based on long term interaction and learning and, hence, more relevant in lasting relationships than in new relationships (especially relevant in relational type of governance). *Third party interventions* (TPI) can sustain the overall credibility of the CSR code and its implementation and, hence, secure compliance and avoid opportunism; and TRI is applicable in all types of governance. *Reputation effects* (RE) safeguard the OO firm where the contractor is dependent on the principal firm and also dependent on a business network to sustain its performance and financial viability (overall transaction pattern of contractor).

Both governance and safeguards of implementation deal with transactional aspects between business parties. What is missing here is on the one hand the wider business context which impacts on the individual firms and their bilateral transactions, and on the other hand the way that the principal and recipient firms organise their CSR activities. However, the study abstains from analysing of both sides of the transaction and concentrates on the recipient (agent) firm in the OO relationship, while it includes the business context² and the internal organisation of CSR activities³. In sum, the theoretical framework for analysing the interface between OO transactions and CSR upgrading of Malaysian firms (table 1 below) is construed as an integration of the corresponding frameworks for core business transactions and CSR transactions respectively.

Table 1: Combined GVC+ analysis of governance & upgrading of vendor firms’ core & CSR activities.

<i>Principal OO firm general capability</i>	<i>Recipient DC firm general capability</i>	<i>Complexity of combined transactions</i>	<i>Codifiability of combined transactions</i>	<i>Type of governance</i>	<i>Implementation Safeguards</i>	<i>Institutional context</i>	<i>Upgrading of DC firm in performance & GSP terms</i>

Source: authors’ own illustration

Finally, operationalising our theoretical concepts is quite a problem, not least the concepts used in the GVC governance & upgrading theory. The operationalisation of the CSR concept may be less problematic by using the Global Compact triple dimensions of human rights (HR), labour rights and environmental sustainability (Post & Carroll 2003). For the present

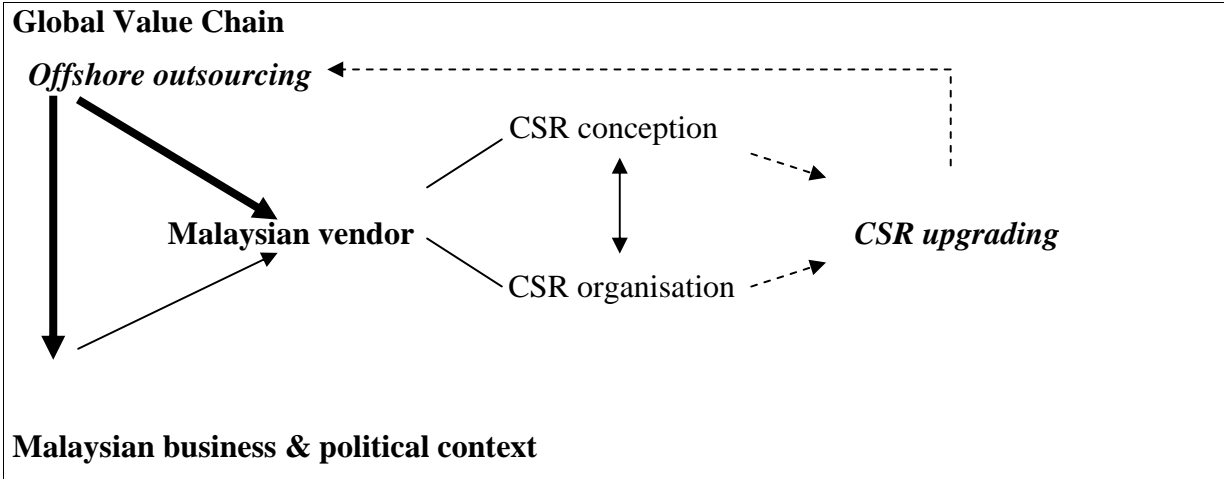
² Variables of industry/sector CSR problems, CSR best practices in industry/sector, CSR challenges facing the recipient firm, CSR support from other stakeholders than customers.

³ Company’s way of addressing and integrating CSR activities in company routines and organisation, and collaboration between the firm and other stakeholders to further CSR initiatives.

purpose the labour rights, occupational health and safety and environmental sustainability may suffice considering that human rights concern the citizen-state relationship and not the citizen-company relationship, which is covered by the labour rights and environmental issue. Codes of conducts are available like the GRI reporting criteria, the SA 8000, the OHSAS 18001 and the ISO 14001. Yet, it is just as important to take the actors' own conceptions and perceptions of the CSR concept and discourse into consideration because these understandings inform the perceived space of action and options for decision-making.

As mentioned before, the study did not undertake an investigation of transaction relationships between the business parties. This means that the principal firm does not appear with capability and strategy in its own right. It appears only as the driver of competitive principles (cost, quality, niche) as perceived by the recipient developing country firm. Moreover, the codifiability of the transaction is to be settled in public in the sense that, if there are CSR standards available, we assume that the CSR transaction is codified or possessing high potential codifiability. Finally, the institutional set-up of CSR in Malaysia was investigated, but this aspect of CSR is less theorised and hence less systematically addressed. The explanatory logic is outlined in figure 1:

Figure 1: Explanatory logic of the interface between offshore outsourcing and CSR upgrading.



Source: Authors' own illustration

Based on these considerations, our approach to the analysis of the OO-CSR nexus of Malaysian firms includes three steps. First, we make an overall data matrix comprising the profiles of the companies, their CSR conceptions, the type of governance, implementation of quality standards, institutional support and relate these factors to the CSR capability as perceived by the Malaysian firms. Hereby, we aim for identification of the structural position of the Malaysian firms in their global value chains and institutional context and their CSR capability (table 2, appendix). Second, we make an internal analysis of the firm's CSR organisation, activities and performance (upgrading). Hereby, we disclose the internal mechanism by which the Malaysian firms operationalise the CSR agenda, and how they perform in CSR terms (table 3, appendix). Finally, we investigate the interface between the business and societal institutions which may condition the CSR performance of the Malaysian firms. This will enable us to analyse whether the business and societal contexts affect the CSR performance of the Malaysian firms (table 4, appendix). Yet, before we undertake these analyses we want to situate the Malaysian firms in their overall institutional context and the emerging Malaysian CSR discourse.

4. Institutional context

The emergence of a Malaysian CSR discourse takes place in a hybrid of a political economy where the economy is very open in terms of foreign trade and foreign direct investments, and has been for decades, while the political system is very closed defending the newborn sovereignty of 1957. Some kind of a bourgeois revolution took place in the 1980s when the executive power overruled the aristocratic powers of the sultans and the King, but no deepening of the authoritarian democratic system took place and no strong civil society evolved. The financial crisis of 1997-98 changed the political perceptions of corporate governance and nurtured the rise of a new CSR discourse. The section outlines the changing political economy of Malaysia, the government's construction of a new CSR agenda, and the roles played by the Securities Commission, by NGOs, and by corporate entities. Finally, Malaysia's CSR record is assessed by international standards.

The political economy of the emergent CSR discourse in Malaysia

Malaysia is a multi-ethnic industrialising society that has been ruled by a coalition of ethnically based parties, de facto in power since 1957 (the Alliance), and by an expanded coalition of parties (National Front) under the hegemony of UMNO since 1974. Since 1971 Malaysia has pursued and implemented an affirmative strategy in favour of the Bumiputera (Malays and other indigenous) community in order to elevate the Bumiputeras to economic equality with the Chinese and Indian communities and alleviate poverty. This development policy has tried to mobilise foreign direct investment (FDI) and partner with TNCs, while simultaneously supporting the development of a Bumiputera Commercial and Industrial Community (BCIC). What happened was that foreign-owned corporate equity declined while both the Bumi and the non-Bumi Malaysian-owned equities increased but without diminishing the relative distance between the share of corporate equity between the Bumi and the non-Bumi communities (Government of Malaysia, 1991).

Since the early 1990s, the government has disclosed CSR aspirations, when Tun Dr Mahathir Mohamed, the former Prime Minister of Malaysia, conceived the Vision 2020 to drive the country from being a consumer society into being a knowledge generating society. Three out of the nine challenges of the Vision - a moral and ethical community, a fully caring culture, and an economically just society – reflect the principles of CSR.

However, in the wake of the East Asian crisis 1997, the issue of good corporate governance became a key issue internationally and among East Asian countries. It was claimed among Northern countries and international financial institutions that bad corporate governance and especially corruption and 'cronyism' explained the debacle of the East Asian Miracle (Rodan, Hewison and Robinson, 2001: 18). The Malaysian government had been adjusting its legislation and regulations continuously, during the 1990s, in favour of a more liberal market institution, but during the financial crisis Malaysia enacted controversial anti-IMF crisis governance, which re-regulated and restricted the cross-border flow of FDI for some time. Although the policy prevented the Malaysian economy from a meltdown and the Malaysian business community (especially the BCIC) from bankruptcy, it changed the reputation of Malaysia as a pro-FDI country.

Since 1997, the FDI inflow has never regained its former momentum. It dropped from 7.3 billion USD in 1996 to 2.7 billion USD in 1998, and recovered at a level of 4-5 billion USD 2004-05. Although Malaysia received about 6.1 billion USD in FDI inflow in 2006, the outflow of FDI matched the inflow for the first time (UNCTAD various WIR). The capitalisation of the stock market in Malaysia decreased slightly from 1996 to 2006 while the

stock markets in Hong Kong, South Korea, India and Singapore increased several times (*Economist*, December 2nd, 2006, p. 33). If stock market capitalisation is an indicator of investors' confidence in the effective corporate governance of public limited companies, Malaysia's reputation has fallen behind several of its regional competitors for foreign direct investments.

The Government's new CSR agenda

In order to demonstrate its commitment to achieving economic progress that is consistent with good personal values and corporate ethics, the government presented the Malaysian 'Business Code of Ethics' in 2002 and supplemented the code with a 'National Integrity Plan' and the founding of the Integrity Institute of Malaysia (IIM) in 2004. Among the key objectives to be achieved by IIM within the next five years are the need to enhance the standards of corporate governance and business ethics and also to improve the quality of life and the well being of the citizens.

Government-linked companies are generally perceived by the government as the drivers of the Malaysian corporate sector because they "comprise more than a third of the capitalization of Bursa Malaysia and half of the KL Composite Index" (Yakcop 2007). In line with the government's commitment and determination to drive the development of the GLCs, the state investment arm Khazanah Nasional Bhd (KNB) launched The Silver Book on September 2006 under its GLC Transformation Programme. The Book provides a set of principles and guidelines to be implemented by GLCs so that they can contribute proactively to society while creating value for shareholders; it also guides GLCs on how they can clarify and manage social obligation (Khazanah Nasional Bhd, 2006). Since then, a collaborative CSR initiative by the GLCs, The Ministry of Education, and State Education Departments named PINTAR (Promoting Intelligence, Nurturing Talent and Advocating Responsibility) has been launched to foster academic excellence particularly among rural school children. As of October 2007, 57 schools involving more than 20,000 primary and secondary students have been "adopted" by the GLCs. Under the PINTAR programme, the GLCs are required to go beyond one-off financial contribution. Instead they are expected to actively participate in ongoing projects such as extra and remedial tuition classes for underprivileged students, nutrition programmes, motivation classes and skill building workshops (Khazanah Nasional Bhd, 2007).

In sum, the Malaysian government emphasised the importance of the CSR-related principles in its long-term development perspective. In fact, the government argues that there is a fit between the country's long term development and the promotion of CSR:

"One of the hallmarks of our development agenda throughout the past half century is achieving economic growth with equity, particularly in terms of income distribution and poverty eradication. These socio-economic achievements, indeed, reflect the same set of positive values which form the backbone of social responsibility" (Yakcop 2007).

Government linked institutions: The Securities Commission and Bursa Malaysia

A key player in the construction of the Malaysian discourse on CSR has been the Securities Commission (SC). The SC's statement on the emergence of CSR and its own role discloses how the forces have played out until now (interview 2006-12-15):

Question: "How and when did the Security Commission (SC) got involved in Corporate Social Responsibility (CSR)?"

Answer: "The SC started developing initiatives to improve the various aspects of corporate governance since 1985. It was an uphill battle at that time. The Asian financial crisis in 1997 provided further reasons for SC to adopt a more concerted approach towards corporate governance reform. SC participated in the Finance Committee on Corporate Governance in 1998 to identify and deal with weaknesses highlighted by the crisis in the governance framework, and their findings showed that companies must be responsible to all the stakeholders. In the early 2000, Malaysia companies became more aware of their responsibilities not just towards the shareholders but also to the other stakeholders. SC started promoting CSR through awareness programmes, instead of setting rules, as CSR is a voluntary practice and is a business behaviour over and above what is ordinarily required by legal requirements. SC's current chairman Dato' Zarina Anwar, came on board on 2004 from Shell Malaysia and brought along Shell's CSR culture to SC."

Hence, improved corporate governance was the overall objective which came to include the CSR agenda, and this agenda has been conceived as a voluntary and domestic endeavour and informed by a TNC like Shell. The SC did not link the CSR agenda directly to the question of offshore outsourcing, but nor are the two issues disconnected (interview op.cit.):

Question: "Is the CSR agenda in any way related to the trend of offshoring / outsourcing in the global economy?"

Answer: "Not specifically. However, SC's CSR agenda looks at the enhancement of global competitiveness of Malaysian companies. SC is keen to see more companies incorporate CSR into their corporate governance agenda to increase their profile, so that they can gain recognition from the perspective of international and domestic institutional investors. In view that the guides in UN Global Compact is consistent with the teaching of Islam, it is also in SC's agenda to establish Malaysia as the centre for international Islamic capital market in line with the Capital Market Masterplan."

Finally, The SC focuses its energy on awareness-raising and takes its main result to be its positive impact on the raising of public awareness about CSR issues:

Question: "How does SC promotes its CSR framework?"

Answer: "SC co-hosted a CSR conference with the British High Commission in 2004 with the objective of creating and strengthening awareness of CSR and its growing importance among local companies. SC co-hosted a CSR seminar with UNDP in 2006 to create awareness and to support UNDP Malaysia's effort in CSR. SC strongly encourages Malaysian companies to put in more effort to achieve membership for the UN Global Compact."

Question: "What has SC achieved in the CSR field so far?"

Answer: "Key achievement - CSR is no longer an alien word in the corporate landscape through the numerous awareness programmes."

Bursa Malaysia (BM) launched the CSR framework in September 2006 after having worked with CSR since 2004 (interview 2006-12-04). The framework represents a set of voluntary guidelines for publicly listed and government-owned companies to address matters related to responsibility and ethics in the course of their normal pursuit of profits. (<http://www.klse.com.my/website/bm/>, access on: November 2006).

BM, which is incorporated as a GLC company, contends that the government has not taken the initiative in CSR. It is stated that "Contrary to Europe where the UK government and the

EU Commission have expanded ethical resources in pension funds, in Malaysia we focus much more on competitiveness” (interview 2006-12-04) However, “no one really looked into what the PLCs were doing”. In order to increase the competitiveness of GLCs, the Malaysian government wanted to improve their CSR record. Yet, this approach had partly been influenced by civil society: “Many NGOs have been actively promoting CSR for years in Malaysia even within political parties” (BM interview 2006-12-04).

Hence, it is ironic that the NGOs have been successfully promoting the CSR discourse for years, but when it is adopted, at least rhetorically, by state agencies and the government the overriding purpose is to increase competitiveness and profitability in an international market environment that has shifted to acknowledge CSR. Moreover, it is a bit surprising that the Securities Commission encourages Malaysian firms to join the UN Global Compact because this Compact requires that the participants endorse the core ILO labour rights, including the freedom of association, which is neither accepted by the Malaysian government and has nor been ratified by the parliament!

Non-governmental organisations and the business community

CSR Malaysia was formed on November 2006, and was later renamed as the Institute of Corporate Responsibility Malaysia (ICRM). It is a network of 34 corporate institutions (mostly blue chip companies and GLCs) committed to advancing responsible business strategies and practices that have triple-bottom-line impact – on people, the environment and economies. It is strongly supported by the SC, BM and KNB. The strategic thrust of ICRM is capacity and capability building. Since its inception, it has carried out a series of multi-disciplinary workshops that address issues ranging from GRI Standards and stakeholder engagement to climate change. (Ibrahim, 2007)

Local professional associations such as ACCA also have been active on CSR issues for years. The annual ACCA Malaysia Environmental and Social Reporting Awards (MESRA) aims to identify and reward the participating corporations for their innovative attempts to communicate organizational performance through disclosure of environmental, social or full sustainability information. The MESRA award winners of 2005 were British American Tobacco (Malaysia) Berhad for the Best Social Report category, and Alan Flora Sdn Bhd for the Best Environmental Report category. Shell Refining Company Berhad and Telekom Malaysian Berhad were awarded for having the best environmental reporting and social reporting, respectively, in their annual reports. (Tay, 2006)

In general, it is interesting to note that the Malaysian companies which have effective CSR reporting prefer to act on social and environmental causes that they can relate to. For example, Gamuda Land markets eco-friendly homes and neighbourhood, Alam Flora carries out community education for a clean environment, and Maxis Communication organizes internet camps around the country for the underprivileged children. Nonetheless, the small and medium size enterprises (“SME”) which form the backbone of Malaysia’s economic structure⁴ are still lagging behind in terms of CSR. This is because these companies view managing environmental and social matters as time consuming and unproductive affairs (Sustainability, 2005).

According to the ACCA report titled ‘The State of Corporate Environmental Reporting in Malaysia’ published in early 2002, Corporate Environmental Reporting (CER) in Malaysia is still in its infancy. Tan, Zainal and Cheong (1990) conclude that voluntary disclosure in Malaysia is an exception rather than the norm despite the fact that users would prefer to see

⁴ At end of year 2005, the SMEs constituted 92% of the total number of companies registered with the Companies’ Commission of Malaysia, contributed 29.1% of manufacturing output and easily account for one third of the total employment.

more non-mandatory information. Chan (2000) argues that government directions to disclose environmental information are the influence most likely to cause a change of practice. In addition, Thompson and Zakaria (2003) comment that the lack of pressure from other stakeholders such as the non-government organizations and pressure groups may explain why only few companies take CER seriously. They further elaborate that CER requires the companies to be transparent and open - characteristics that are far from prevalent in Southeast Asian cultures.

The emergence of socially responsible investment (SRI) in recent years has also provided an added impetus to CSR and in turn CER in Malaysia. SRI encompasses social and/or environmental criteria in the investment decision-making-process. Thus, SRI provides incentives for listed companies to be socially and environmentally responsible as a means of attracting funds from social investors. In January, 2003, Maybank, Malaysia's largest bank, launched the country's first socially responsible fund - the Maybank Ethical Trust Fund.

Malaysia's CSR performance in an international perspective

Taking an international CSR standard perspective, the record of Malaysia is rather bleak. The Malaysian government has ratified most of the core international labour rights, except the right to form independent trade unions (preventing the formation of a large electrical & electronics industrial union), but the enforcement of these ILO labour rights are far from international standards and the Malaysian Trades Union Congress complains about violations of trade union rights (MTUC 2002, ITUC 2007). Presently, the government, together with the National Institution of OHS, has established the legislation of occupational health and safety standards and has, furthermore, upgraded its environmental policy and planning.

However, the government is not known for taking a pro-active and progressive stance *in practice* on international labour rights, occupational health and safety standards, and environmental issues. In fact, Malaysia does not rank high - or even appear - on several international CSR indexes; for example:

- a) there is only one firm – and a foreign controlled firm (Dupont Malaysia Sdn Bhd since 2003⁵) that appears at the UN Global Compact 2007 list for Malaysia;
- b) no Malaysian bank participates in the group behind the IFC Equator Principles;
- c) Malaysia does not adhere to the OECD Guidelines for Multinational Enterprises although other non-OECD countries do - e.g. Brazil (see UNCTAD (2006) WIR 2006, ch. VI, section D).
- d) In terms of SA 8000, only two Malaysian firms are registered by June 2006 (SAI, www.sa-intl.org/): *Pan Century Edible Oils Sdn. Bhd.* which manufactures palm oil and palm oil products, and *Pan-Century Oleochemicals Sdn. Bhd.* that makes and distributes acids and glycerine.
- e) In 2004, only two Malaysian incorporated companies, the BAT Malaysia and Sime Derby, appeared on the Dow Jones Sustainability World Index (DJSI) among 310 companies; and
- f) Only 26 Malaysian companies, including the Golden Hope Plantations Berhad, subscribed to the Malaysian Chapter of the Global Forest and Trade and, hence, to minimum certification standards (Razak 2004: 19).

It is interesting to note that the SA 8000 criteria may be supplemented by the criterion of collective agreement with independent trade unions, expanding the group of socially

⁵ In 2006, Ford Malaysia did also appear among the UN Global Compact participants in Malaysia. In 2007, a new Malaysian service company has entered the list, Shah Educational Systems Sdn Bhd.

accountable firms vis-à-vis trade unions. Yet, the BAT which obtained the DJSI status made a reclassification of jobs in 2006 which stripped the BAT enterprise union of 60 per cent of its membership, and the Industrial Relations authorities have not responded to the complaints of the union (ITUC 2007). In terms of ISO 14001 & EMAS, Malaysia held 694 in December 2005, of which 246 were 14001:2004 (ISO Survey of Certification 2005, www.iso.org/). In terms of the OHSAS 18001 the standard was co-authored by, among others, the Standards and Industrial Institute of Malaysia. No numbers on firm certification are available at this moment (ultimo 2006).

Even in a regional perspective, Malaysia does not seem to improve its position. In the recent survey on corporate governance quality in Asia, jointly conducted by investment house CLSA Asia-Pacific Markets and Hong Kong based Asian Corporate Governance Association (ACGA), Malaysia was ranked as joint sixth (with Korea), down two slots since October 2005. The report observed that, even though on the surface the corporate governance environment in Malaysia seemed to be on an improving trend, the extent of penetration of corporate governance to the Malaysian business culture remained limited. In addition, the recent accounting irregularities at publicly listed companies, such as Transmile Holdings Berhad, Megan Media Holdings Berhad, Welli Multi Corp Berhad and NasionCom Holdings Berhad, hit the equity market badly (Oh, 2007).

News that threatened to weaken the country's corporate governance record per se was the discovery of irregularities in the accounting records of the Malaysian Institute of Corporate Governance (MICG) – the very institution that was formed in 1998 to spearhead the drive for a higher standard of governance and transparency. It was reported that, due to weak internal controls in its 2006 financial statement, MICG could stand to lose up to RM 94,173. Specifically, MICG pointed out that “certain employees of the institute, who have since left, have allegedly stolen property of the institute, which includes unspecified amounts of funds, cheques, documents relating to accounting records and membership database”. Even though the amount is not large, it is extremely significant considering MICG's status as a non-profit organisation and its income-base that comprises of membership fees, annual subscriptions, grants, and publication sales (Gabriel, 2007).

5. Offshore outsourcing and CSR among local firms in Malaysia

The analysis of the interface between offshore outsourcing and CSR upgrading in Malaysia is conducted by way of, firstly, establishing the relations between the global value chain perspective and the OO profile of the investigated Malaysian firms; and secondly, describing and explaining the Malaysian firms' CSR capabilities, followed by a discussion of the CSR mechanisms instituted and the perceived CSR upgrading of the firms. Finally, the institutional effects on company CSR capabilities and upgrading are highlighted and wind up the analysis.

The OO profile of Malaysian firms and their global value chain position

The OO profile of a firm is not necessarily identical with its global value chain position. We hypothesise that if buyer-driven value chains like garment & textiles & chemicals provide more space for suppliers' upgrading and hence more leeway for (additional) production of own products and more market-based transaction, these firms will vary according to subcontracting activities. However, producer-driven chains, like the global automobile industry and the global electronics industry, will provide less space for functional upgrading and hence, suppliers will be more 'captured' by their customers and have a much larger turnover in subcontracting. If the firm is only embedded in local value chains (domestic

management control and domestic market orientation), it will probably have less subcontracting. In fact, these expectations are corroborated by our sample except for company I (table 5). This company is a subsidiary of a global first-tier supplier with its own technology and brand products.

Table 5: Distribution of sample firms according to global value chain position and (sub-) contracting as part of total turnover (2006).

<i>Contracting/sub-contracting/turnover</i>	Global value chain position		
	Producer-driven	Buyer-driven	Local value chain
<i>Minor</i>	I	D	A, E
<i>Substantial</i>		C	
<i>Most</i>	F, G, H	B	

Source: Authors' own illustration

As mentioned before, our study sample of Malaysian firms was selected from two angles: Offshore outsourcing activities or CSR reporting. Regarding the OO criterion, the sample comprises four firms with more than 2/3 of their turnover being conceived as contract or subcontract deliveries (firm B, F, G, H, see table 2, annex). A fifth firm (firm C) reports that subcontracting forms a substantial part of their sales, and that the firm exports 60% of its goods and 30% to domestically operating foreign firms, that is, 90% of its turnover is internationalised. Of the three firms with minor subcontracting activities (A, D, E), only one (firm D) had substantial export while the rest had little export. However, a few had foreign customers located in Malaysia (firm A and E).

The firms A, E, H were selected because of their CSR profile, indicated by their participation in the ACCA MESRA 2005 contest. Hence, only one firm (H) combined the selection properties of OO and CSR from the outset, but it did not export very much (below 10% of sales)! The most outstanding firm in terms of subcontracting in offshore outsourcing is company F with 95 percent, of which around 50 percent was exported and a quarter was sold to foreign customers in Malaysia! This company is located within the electronics industry and has more than 3000 employees in total, whom are spread over many locations both in Malaysia and abroad in the East Asian region.

Given the variety of the sampled firms, it is valid to contend that the global value chain location of the Malaysian firms conditions their offshore outsourcing activity.

Explaining the perceived CSR capability of Malaysian firms

The perceived CSR capability of the nine selected Malaysian firms is chosen to be the first dependent factor to be examined. The answers provided by the firms are a bit surprising because nearly all express that the company can meet customer demands about CSR (only one would not outright claim that the company had the capabilities to handle CSR issues). How can this be the case when we would expect that CSR is a new and emerging agenda which Malaysian firms are not yet prepared to handle in a proper way.

One explanation could be that the firms perceive the CSR agenda as rather simple and less challenging. In fact, none of the selected firms claimed that they took the CSR problem areas to be complex, although several modified their statement that the answer depended on the CSR issue involved. This could be due to the low level of awareness and understanding among the firms in terms of the true essence of CSR, and that this ignorance is reflected in

their perception. This is in line with Amran's (2006) study that endeavours to establish CSR from the managers' perspective. The study eventually concludes that Malaysian firms practice CSR in the absence of proper understanding of the concept of CSR itself.

Another explanation could be that the firms possessed knowledge and experience complying with international quality standards, including CSR standards like the ISO 14001, OHSAS 18001 and for automobile suppliers TS 16949 including OHSAS 18001. In fact, all OO recipient firms (B, F, G, H) had acquired CSR standards like the ISO 14001, OHSAS 18001, or TS 16949. Among the non OO firms (A, D, E) only one qualified with a CSR standard, and this firm was a GLC firm (E). This firm also relied on institutional support from the outside being a GLC firm, while most of the sample firms claimed that they did not get external support.

All the OO recipient firms took their customer relationships to be long term, except for company B, which emphasised that its market was segmented and only part of it was characterised as long term. Overall, and independently of the existence of OO transactions, the companies claimed that they had some kind of stable inter-firm relations and most often long term relationships with their customers. Hence, this factor does not explain differences among firms but it may instead condition that the firms are in general confident in their abilities to handle CSR demands from customers.

Finally, the sample firms faced a market where customers demanded competitive quality, or quality and price, or they described their market as a niche market. Only in one instance a Malaysian firm mentioned that the CSR agenda did pop up, but this was more a concern of the TNCs and not conveyed to the Malaysian firms. Yet, asked about whether CSR claims appeared as a compulsory or voluntary matter, our four OO recipient firms all perceived the claims as compulsory due to competitive pressures, customer insistence or governmental regulation. The 'non-OO' firms (with minor OO activities) were more inclined to state that CSR issues were a voluntary issue. The ultimate assessment of CSR as an expenditure, investment or a moral plight in itself triggered a more varied response from the OO firms (with substantial or most OO activities) as well as the non OO firms. In fact, six firms (C, D, E, F, H, I) considered CSR as some kind of a moral obligation or a question of business ethics although only one firm took it to be a human plight above anything else (firm C).

Overall, the sample firms agreed that they possessed the competences necessary for accommodating customers' demands for CSR activities, and that the CSR problem area was rather simple. Yet, the OO firms felt that CSR claims were forced upon them through competition or by the authorities, while non-OO firms were more inclined to see the CSR agenda as a voluntary discourse. OO firms had also established international CSR standards while the same was not done by non-OO firms, although all sample firms complied with at least the lowest level of international quality standards, the ISO 9000. The most OO involved firm (company F) was the only one to claim that it had its own personnel to deal with CSR issues.

CSR mechanisms and CSR upgrading strategy among Malaysian firms

Let us now take a closer look at the kind and degree of CSR upgrading among the Malaysian firms and the explanatory power of their internal mechanisms. Here, it is remarkable that nearly all firms (seven) confirmed that they had initiated CSR activities on their own, while one firm (firm I) declined that it had done so, and one respondent did not know about such initiatives. Yet, all firms stated that they had not been forced into CSR upgrading by

customers or competitors⁶. The only firm, which directly felt that it was driven by the market to do something about CSR, was a wood-based manufacturing firm (firm B), which had to comply with FSO standards and passed them on to its raw-material suppliers. Only two other firms did also demand their suppliers to take on CSR standards (firm F, G). Hence, the only company, which did not put pressure on its suppliers, was firm H, the only firm, which among the sample of OO firms also appeared in the ACCA MESRA 2005 participation. This firm is a GLC and part of the governments Transformation Programme with the Silver Book initiative.

It is interesting to note that the executive director in firm B had personally shown a keen interest in the issues pertaining to global warming after having seen the Al Gore film about global warming. He has been trying to create an environmentally friendly culture within the organization and implement various energy-saving and anti-pollution measures, such as installing heat resistance laminated windows in the manufacturing plant and implementing saw dust collection system.

One common characteristic among the sample firms was that they would upgrade on CSR in the year ahead by way of enhancing CSR reporting, taking on OHS improvements or upgrading their environmental impact on the surroundings. This pattern can then be compared to the existing level of CSR routines, where five sample firms (A, C, D, G, H) undertook both environmental and social CSR routines - comprising mostly CSR targeting, monitoring and reporting initiatives. Some firms (B, I) stated that no CSR routines existed, but in both these cases the firms reported that they had achieved the OHSAS 18001 certification, either directly or as part of the TS 16949 standards.

This pattern can also be related to the integration of CSR issues in strategies and organisation, as all sample firms agreed that they, in one way or another, deal with elements of CSR in their vision, mission, strategy, policies, organisation or operations. Yet, no firm applied a triple bottom line approach to their business. This picture of raising CSR awareness, own and voluntary CSR initiatives and yet a diversity of sporadic to systematic integration of CSR aspects testifies to the emergence of a CSR agenda in Malaysia, but also to the huge differences in actual practices and coherent tackling of the CSR problems.

Finally, most sample firms perceived the CSR challenges facing the firm to be the same facing their industry. In three cases, the firms stated that they had particular problems but these problems could be interpreted as industry-specific problems. Only in one firm, the respondent argued that the firm faced particular problems, and these problems were related to the product quality standards of the export destination (EU) and spilled over into the awareness of the employees and the philosophy pursued by the management.

In sum, the data do not seem to indicate that there is a strong link between the firms' CSR routines, upgrading or future plans and their OO positions or industry locations. However, there is a correspondence between the perceived customer pressure for CSR upgrading and the support delivered by the customers for such activities - positive in the case of four firms (B, D, F, H), negative in the case of three firms (A, C, I), and mixed in the case of two firms (E, G). In the case of one of the GLC firms (E), it was argued that the Malaysian consumers were naive and did not push the firms to upgrade their CSR standing and what mattered was the price of the standard products. For firm G, one could question the response given that the customers or competitors did force CSR upgrading on the firm, because the firm is in a process of completing its certification of the TS 16949 standard which is the state of the art in the firm's industry - auto component manufacturing (Wad 2006).

⁶ We eliminate the ISO 9000 as a non CSR standard, and the EUC ROHS technical standard against lead in electronic production which is at best a political intervention, not a market pressure.

Finally, the interface between global value chain position, OO profile, and the adoption of reactive or proactive CSR strategising does not seem to display the expected pattern. The two firms in domestically driven value chains and with only minor involvement in offshore outsourcing demonstrate clear-cut pro-active CSR strategising. One of these firms is government-linked (firm E), while the other (firm A) is a joint venture between a merger of two TNCs with majority (51 percent) control and Malaysian equity interests, but managed as a ‘multinational’ organisation with a decentralised decision-making structure and local autonomy (Dicken 2003: 215). But putting these two firms aside proactive CSR strategising firms are all taking on (sub-) contracting businesses as a substantial or dominant share of their portfolio. Hence, offshore outsourcing matters and so does local political interventions and institutions.

Table 6: Distribution of sample firms according to global value chain position and (sub)contracting as part of total turnover (2006).

<i>Global value chain position</i>	<i>Contracting/sub-contracting/turnover</i>	CSR Strategising			
		Non-active	Reactive	Reactive & Proactive	Proactive
<i>Producer driven</i>	<i>Minor</i>	I			
	<i>Substantial</i>				
	<i>Most</i>			F, H	G
<i>Buyer driven</i>	<i>Minor</i>		D		
	<i>Substantial</i>				C
	<i>Most</i>			B	
<i>Domestic driven</i>	<i>Minor</i>				A, E
	<i>Substantial</i>				
	<i>Most</i>				

Source: authors’ own illustration

Summing up on the internal CSR dynamics of the sample firms, we notice that a CSR momentum seemed to be evolving among the sample firms located in a diversity of industries - both in terms of voluntary initiatives of the firms and their future plans. Proactive CSR strategising is taking place among ‘OO’-firms but also among ‘non-OO’ firms, due to the influence of the domestic context (see next section). However, no systematic approaches have been established so far, and no integrated and coherent CSR strategy has been applied. The differences among firms are also due to differences in customer pressure and customer support for CSR upgrading among their Malaysian partners. Overall, all but one company took an active CSR stand, be it reactive or proactive, but whether the strategising is implemented in business practices is open for questioning. The CSR discourse may reach an impasse moving from rhetoric to practice and performance.

The impact of the business and societal context on CSR capability and upgrading

The peculiar common features among our sample firms in terms of perceived CSR capability and voluntary CSR momentum do not seem to be fully explained by industry specific conditions, although the CSR problematic is understood as a general sector issue and seldom

perceived as a particularistic firm challenge. The question is whether and how the CSR commonality is caused or conditioned by cross-industry structures or societal institutions.

Most firms (A, B, C, D, F, G, I) do overwhelmingly point towards environmental and OHS problems as the key problems bedevilling their industry. The two exceptions are both GLCs - firm E denying that the sector faces any CSR problems, only problems of society like caring for the disabled, and firm H which takes the Silver Book as the authoritative identification of CSR problems (of GLCs). Both these firms have a high CSR profile and participated in the ACCA MESRA 2005 contest! Both firms may anyhow deceive themselves by taking the challenges of the customers or consumers as the key indicators of the sector, inferring that if such challenges do not appear, no CSR problems exist. This interpretation assumes that the market forces are the drivers of CSR and not ethical reflections or governmental policies of national branding or global value chain upgrading.

However, none of the sample firms argued that there had been some kind of a CSR crisis like the Enron scandal in the USA or environmental disasters like the Bhopal crisis in India or Exxon Valdes in Alaska, USA. Yet, a tiny majority of the sample firms (B, C, F, G, H) could identify a best-practice firm in their industry, and in these cases the leading CSR firm was a foreign firm, except in one case - Sime Darby, a huge GLC. In three cases Japanese TNCs were graded as the corporations with the best CSR practices; IKEA was the only western firm mentioned.

The alternative source of support for CSR upgrading, beyond the eventual HQs of subsidiaries or joint ventures and especially the customer, could be other company stakeholders and the larger society. In most cases, our sample firms do not recognise any support from other stakeholders or third party certification, but in some cases firms acknowledge the support of ACCA and the government, and for third party certification the GLC institution of SIRIM is mentioned twice. On the one hand, Malaysian firms seem to be stand-alone-entities when taken on the CSR agenda, emphasising individual and voluntary CSR initiatives. On the other hand, they seem quite dependent on customer support and pressure together with government initiatives and institutional support.

Hence, the sample firms and their conceptions of and practices on CSR issues reflect the dual exposure to customers and their embeddedness in global value chains, and to their societal embeddedness within Malaysian institutions and political and socio-cultural dynamics; but they do also testify to the importance of the agency of individual managers, employees and relevant stakeholders.

6. Conclusion

Offshore outsourcing and corporate social responsibility are not entirely new phenomena in international business, but they attracted increasing public scrutiny and debate in the global North during the 1990s and early 21st century in the wake of rapid economic globalisation, offshoring of jobs on a massive scale, disclosure of corporate financial scandals, and breach of international labour and environmental standards.

With the expansion of global value chains leading, corporations with global activities increasingly engaged developing country firms in non-equity based business transactions while disintegrating and focusing their vertically integrated corporate structures around their core competencies and activities. Offshore outsourcing created space for local firms to contract or subcontract original equipment manufacturing or even original design functions which again might pave the way for the ultimate upgrading into original brand manufacturing. Concomitantly, the thresholds for accessing global value chains have been increasing as indicated by the rise of international quality standards and certification requirements instigated by corporate chain leaders. CSR is part and parcel of this new standard setting.

In Malaysia, the government long pursued an alliance policy with Northern TNCs in order to attract FDI and create economic growth and employment through the offshoring of standard TNC activities like labour intensive assembling of electronics components. However, from the 1990s the Malaysian government aimed for value chain upgrading as envisaged in its Second Industrial Master Plan (1996/2005) and Third Industrial Master Plan (2006/2020) together with the five year Malaysia Plans and the vision plan of 1991 (Vision 2020). With the East Asian financial crisis enhanced, corporate governance rose to highest priority in political circles in order to regain and sustain the inflow of FDI and portfolio capital and in addition to enhance the international competitiveness of Malaysian TNCs. CSR became part of the corporate governance agenda, but it did also provide an avenue for new Malaysian government under Abdullah Badawi to emphasise cross-ethnic human values and moral integrity as a rallying point for national unity, coined in the National Integrity Plan of 2004, and translated into the Transformation Programme for government-linked companies (GLCs).

The present study of a small sample of Malaysian companies, which is composed of firms contracting more or less offshore outsourcing (OO) activities and with a more or less articulated CSR profile, highlights that there is a connection between OO transactions, the emerging governmental agenda of CSR, and the reception, strategising and institutionalisation of CSR in Malaysian management and organisation. The sample firms, operating in a diversity of manufacturing industries, demonstrate a surprising confidence in their own capabilities to handle customers' CSR demands. This confidence seems to spring from the firms' conception that their CSR challenges are rather simple issues and not complex and urgent problems, sustained by the rather weak pressure for CSR upgrading from customers and consumers in Malaysia, together with the eventual combination of customer claims and support embedded in rather long term business relationships between foreign customers and local (sub-) contractors.

Overall, the CSR agenda has gained a certain momentum, sustained by the Malaysian government and related institutions and companies and also adopted by individual firms based on considerations regarding cost reduction, investments in quality management, human resource development, and product and corporate branding. Yet, the overall positive self-evaluation of Malaysian firms contrasts with the ranking and participation of Malaysian firms in international indexes and CSR contests. At the helm of the CSR pyramid is the UN Global Compact (UNGC), which integrates core international principles of human rights, labour rights, environmental principles, and business ethics, and no fully owned Malaysian manufacturing corporation participates in this forum. One of the challenges posed by the UNGC is the insistence on core labour rights, where Malaysia has not complied with the covenant on freedom of association due to especially Northern and US electronics TNCs anti-union policy in Malaysia.

The articulation of CSR in Malaysia seems to adopt a version which is not taking the agenda very far behind and beyond contemporary legislation, and especially not when it regards the power relation between the governing political coalition and TNCs in the core areas of Malaysian development policy. This is probably due to the overall weaknesses of civil society groups and organisations in Malaysia, although Malaysian NGOs, like civil society movements in the North, were important for the revival of the CSR discourse. However, if Malaysian corporations are now increasingly undertaking foreign direct investments, as indicated by the recent UNCTAD figures of FDI, the firms will face other markets and probably also more vigilante consumers and NGOs insisting on a high level of CSR in a more civil society supportive environment. Then, rhetoric and strategising must translate into CSR business practices and performance in order to enable the firms to compete.

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Annexes:

Table 2:

The structural position of selected Malaysian firms in their global value chain and institutional context, 2006

Table 3:

Company CSR activities, organisation and performance

Table 4:

Company CSR performance and the business and societal context

Notes:

α)

All firms are located in Klang Valley, that is, in the Selangor State and in or around the capital, Kuala Lumpur.

#)

At first these two questions were compounded into one question (Q 19), while Q 18 asked whether the firm had a special CSR function or unit.

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Researchers' interpretation of answer.

Table 2: The structural position of selected Malaysian firms in their global value chain and institutional context, 2006

Firm case	DC firm overall capabilities Ꞇ)							CSR conception of DC firm		Principal firm/customer Demand (Q 26)	Complexity of CSR transaction (Q 28)	Type of governance		Implementation of quality standards (Q 7, Q 21)	Institutional context (Q 14, Q 20)	Competence to meet customer CSR requirement (Q 30)
	Ownership (Q 3)	Size (profile)	Locations (profile)	Foreign activities (profile)	Contract/Subcontract sales (Q 4)	Export & Foreign customer in Mal. (Q 5)	ODM/OBM (Q 6)	Cost/Investment (Q 8)	Voluntary/compulsory/customer pressure (Q 9)			Coordination (Q 29)	Key motive (Q 27)			
A	Fore. JV Public listed	520	1	0	Minor 1-32%	Local customers. Few foreign	No. Using licence	Investm.; competitiveness to be enhanced	Vol.	Quality, niche market	Simple	Long term, trust	Profit. Ethics	ISO 9001:2000. HACCP; No support	ACCA support; From exp. owners; No joint action	Yes
B	Business group; priv. lim.	<1000	2	0	Most 67-100%	Export 60-65%	Yes, ODM/OBM most of sales	Cost & investm.. (OHSAS benefits)	Forced by customers; later it became vol.	Quality	Simple, although it sounds complicated	N.a. Three segmented markets	Profit	ISO 9001. OHSAS 18001, FSE from suppliers, niche customer support	No support for upgrading; employ foreign labour	Do not know
C	Public limited	132	3	0	Substantial (33-66%)	Export 60%, foreign 30%	No	Human plight	Voluntary, yet customer wanted ISO 9000	Niche market	Depends on issue	Long term, trust based	Ethical business	ISO 9000; no support from customer	No support	Yes
D	Public listed private	400	1	1	Minor (1-32%)	Export 50%	ODM/OBM most of sales	Human obligation; competitiveness can be enhanced	Voluntary, customer demand for ISO 9000	Price, quality	Depends on issue	Neither long, nor short term	Profit	ISO 9000-2001; customer technical support	No support, yet SIRIM certified standards	Yes
E	GLC Public listed	1000+	5	0	Minor (1-32%)	Export 2-3%. Foreign customer	Generic prod. after exp. patents	Investm. Moral oblig. Compet.enhance & damaged	Voluntary	Price (generic), Quality (brand). TNCs CSR concern	Not complex if we focus and we do	Long term GO concession 1994-2009	Conscious name	ISO 9001 & 9002, ISO 14001, ISO 17025 (lab). OHSAS 18001, 3S7799 (IT)	Material with GO support; Silverbook. No critical consumers	Yes, depends on severity of issue

Table 2 (continued): The structural position of selected Malaysian firms in their global value chain and institutional context, 2006

Firm case	DC firm overall capabilities (α)							CSR conception of DC firm		Principal firm/customer Demand (Q 26)	Complexity of CSR transaction (Q 28)	Type of governance		Implementation of quality standards (Q 7, Q 21)	Institutional context (Q 14, Q 20)	Competence to meet customer CSR requirement (Q 30)
	Ownership (Q 3)	Size (profile) (Q 3)	Locations (profile) (Q 3)	Foreign activities (profile) (Q 3)	Contract/Subcontract sales (Q 4)	Export & Foreign customer in Mal. (Q 5)	ODM/OBM (Q 6)	Cost/Investment (Q 8)	Voluntary/compulsory/customer pressure (Q 9)			Coordination (Q 29)	Key motive (Q 27)			
F	Private limited	3000+ (Febr. 2006, www)	many	China, Thailand. Phil.	Most (95%)	Export 45-50% directly, 20-25% indir.	Yes, but major part is OEM	Moral obligation; investm; competit. Enhancebut costs.	Forced (EUs ROHS)	Price, quality	Simple	Long term	Past: Serve societyFuture for everyone	ISO 9000 (1996) ISO 14001 under audit.	Advice from SIRIM	Yes, the firm has personnel to deal with CSR
G	Public listed private firm	3888 (2005)	7	6	Most (>80%)	Export 10%, 85% to foreign customers in Mal	Yes, with OEM & for after market	Past: Expenditure. Now: investm. or rather cost reduction. Compet. relates to customer demands	Forced by competitors & authorities	Price, quality. No CSR demands by customers	Efforts to get it right is costly. Also waste treatment	Long term (life of model & 10 years for spare parts)	Profit, make shareholders happy.	TS 16949:2002 end of 2007. ISO 14001:2002 (2006). ISO with OEM support	In the past from World Bank	Yes, with outside consultancy; train own trainers.
H	GLC	? (>1000?)	13 subsidiaries (excl. ass. firms)	1 (Thailand)	Probably most to OEMs?	Export <10%	GEP "the third world" ?	Combination of expenditure, investm., ethics, regulat. Branding	Forced by customers (Toyota) & authorities	Quality, customer satisfaction	Simple	Long (auto)& short term (other business)	Share holders & corp. governance	"The Toyota Way" TS 16949, ISO 9000, ISO 14001, OHSAS 18001	Support public school in local area	Yes, if we get more budget
I	Public listed private firm	500	1	0	Minor (1-32%) Probably 'Most'?	Export 5%	No OBM or ODM	Moral obligation. Compet. can be enhanced	Mix of forced & voluntary	Price, quality	Depends on specific CSR issue	Long term & trust based	Profit, society, ethics	ISO 9000. No support from customers.	No	Yes
K		28,000	300 companies	19 countries	?	Export 10%	OBM (yet Sime Tyre 51% acq. by Continental							TS 16949 OHSAS		Rely on Ford's capability

Table 3: Company CSR activities, organisation and performance

Firm cases	CSR challenges faced by DC firm (Q 11)	Company's integration of CSR issues in its organisation (Q 17)	Integration of CSR in daily routines #)		CSR standards achieved (Q 7)	CSR capability (Q 30)	CSR support from customer (Q 13)	Upgrading of CSR			
			<i>Env.</i> <i>Q 18</i>	<i>Social</i> <i>Q 19</i>				Forced by customers or competitors (Q 12)	Own initiatives (Q 15)	Demands on firm's suppliers (Q 16)	Plans for next year (Q 23)
A	Same as industry, firm A being part of oligopoly market	Vision, policies, operations	Env. Targeting, monitoring, reporting	Social targeting, monitoring, reporting	HACCP (for food safety)	Yes	No	No	Yes, CSR reporting	No	More time to enhance CSR reporting
B	Do not know much about competitors, yet labour constraints & employment of foreign labourers	Strategy, policies (codes of conduct) & operations (performance assessment).	No.	No.	OHSAS 18001 FSO for suppliers.	[Knowledge is not adequate]	Yes, but in one case only.	Yes, a minority.	Yes, conditions for foreign workers (hostels)	Yes, FSO	Yes, do something about global warming.
C	Same as industry	Policies, operations.	Yes	Yes	No	Yes	No	No	Yes, comply with env. & employees safety	No	Do not know

Continued ...

Table 3 (continued): Company CSR activities, organisation and performance

Firm cases	CSR challenges faced by DC firm (Q 11)	Company's integration of CSR issues in its organisation (Q 17)	Integration of CSR in daily routines #)		CSR standards achieved (Q 7)	CSR capability (Q 30)	CSR support from customer (Q 13)	Upgrading of CSR			
			Env. Q 18	Social Q 19				Forced by customers or competitors (Q 12)	Own initiatives (Q 15)	Demands on firm's suppliers (Q 16)	Plans for next year (Q 23)
D	Same as industry	Policies	Yes, safety & health of employees. Safety, health, env. meeting each month	Yes, HR meeting every two months	No	Yes	Yes, technical support	Yes, ISO 9000 [? This is not a CSR standard]	Do not know	No	Yes, OHS issue, no specific plans disclosed.
E	No CSR challenges.	OHS committee, Annual report (ACCA MESRA, no triple bottom line) Campaign (MAT)	No	No	ISO 14001, OHSAS 18001.	Yes, with the current people. Yet depends on severity.	Government which is also largest customer	No.	Yes. (employ disabled people, jfr. Q 11).	No.	Yes, the Silver Book.
F	Particular challenges (employee awareness, capital exp. to ROHS, EU directive)	Mission (after philosophy of Daikin, Japan). Strategy (balanced score card strategy map).	Yes (air discharge, noise level)	No.	ISO 14001 under audit	Yes, firm has its specific personnel to deal with the issues.	Yes, technical & training support, no financial support.	ROHS [technical standard of EUC].	Yes, ISO 14001	Yes, mandatory to comply with ROHS	Yes, ISO 14001 [finalise the certification]

Continued ...

Table 3 (continued): Company CSR activities, organisation and performance

Firm cases	CSR challenges faced by DC firm (Q 11)	Company's integration of CSR issues in its organisation (Q 17)	Integration of CSR in daily routines #)		CSR standards achieved (Q 7)	CSR capability (Q 30)	CSR support from customer (Q 13)	Upgrading of CSR			
			<i>Env. Q 18</i>	<i>Social Q 19</i>				Forced by customers or competitors (Q 12)	Own initiatives (Q 15)	Demands on firm's suppliers (Q 16)	Plans for next year (Q 23)
G	Employ foreign labour	Committees for OHS, env., welfare, JCC, in-house unions	[In annual report]	[In annual report]	OHSAS 18001 part of TS 16949 end of year	Yes, but use external consultants to train own trainers.	Yes, in-house training, out-house in one OEM.	Not yet.	Yes, sport clubs, inhouse clinics, subsidized lunch, staff trips.	Push them to comply with ISO 14001 for critical items, ISO 9000 for the rest.	Plan to report on CSR (cost reduction perspective).
H	Bio fuel	Policies	In annual report	In annual report	ISO 14001, OHSAS 18001 (also TS 16949).	Yes, if we get more budget.	Yes, OEM support	Yes, indirectly, OEM has their own way for charity	Yes, charity program, support to local school (music, scholarships)	No, so far.	Silver Book
I	Same as industry	Strategy	Yes, safety measures, 20% foreign workers, on-the-job training	No	TS 16949	Yes.	No.	No	No	No	No specific plan yet

Table 4: Company CSR performance and the business and societal context

Firm cases	CSR problems in industry/sector & solutions			CSR problems of DC firm and stakeholder collaboration (except customer)			CSR standards achieved (Q 7)	CSR capability (Q 30)	Upgrading of CSR			
	Industry/sector CSR problems (Q 10)	Instance of CSR crisis in industry/sector (Q 25)	CSR best practices in industry/sector (Q 24)	CSR challenges facing the recipient firm (Q 11)	CSR support from other stakeholders than customers (Q 14)	Third party certification of CSR (Q 21)			Forced by customers or competitors (Q 12)	Own initiatives (Q 15)	Demands on firm's suppliers (Q 16)	Plans for next year (Q 23)
A	Environmental, heavy water use	No	No best practice	Same challenges	Yes, ACCA & two others (Diageo, APB)	No	ISO 9001:2000 HACCP	Yes	No	Yes,	No	Yes
B	Environmental, OHS; do not know industry	[Do not know]	IKEA (Sweedish firm)	Lack of labour	No (GO handle labour immigration)	FSO	ISO 9001, OHSAS 18001, FSO for suppliers	Do not know	Yes	Yes	Yes	Yes
C	Environmental, OHS	No	Sime Darby, IOI	Same challenges	No	No.	ISO 9000	Yes.	No	Yes	No	Do not know
D	Environmental, [HRD]	Do not know	No 'best practice'	Same challenges	No	Yes, SIRIM	ISO 9000:2001	Yes	Yes	Do not know	No	Yes

Continued ...

Table 4: Combined analysis of governance & upgrading of DC firms' primary & CSR activities in OO-relations in GVC+

Table 4 (continued): Company CSR performance and the business and societal context

Firm cases	CSR problems in industry/sector & solutions			CSR problems of DC firm and stakeholder collaboration (except customer)			CSR standards achieved (Q 7)	CSR capability (Q 30)	Upgrading of CSR			
	Industry/sector CSR problems (Q 10)	Instance of CSR crisis in industry/sector (Q 25)	CSR best practices in industry/sector (Q 24)	CSR challenges facing the recipient firm (Q 11)	CSR support from other stakeholders than customers (Q 14)	Third party certification of CSR (Q 21)			Forced by customers or competitors (Q 12)	Own initiatives (Q 15)	Demands on firm's suppliers (Q 16)	Plans for next year (Q 23)
E	Not much challenge	No, Malaysian consumers still naïve.	No locals with 'best practice', MNCs different	No challenges	No	No. "Are there such companies here?" [do not know Novo Nordic]	ISO 9001, ISO 14001, OHSAS 18001 BS 7799 (IT) ISO 17025 (lab).	Yes, with the current people. Depends on severity.	No	Yes	No	Yes
F	Needs of community [environment]	No	Yes, Daikin Japan	Particular challenges: employees awareness, capital exp. to ROHS, EUC directive	No	Yes, SIRIM	ISO 9000. ISO 14001 under certification	Yes, firm has its specific personnel to deal with the issues	Yes	Yes	Yes	Yes

Continued ...

Table 4: Combined analysis of governance & upgrading of DC firms' primary & CSR activities in OO-relations in GVC+

Table 4 (continued): Company CSR performance and the business and societal context

Firm cases	CSR problems in industry/sector & solutions			CSR problems of DC firm and stakeholder collaboration (except customer)			CSR standards achieved (Q 7)	CSR capability (Q 30)	Upgrading of CSR			
	Industry/sector CSR problems (Q 10)	Instance of CSR crisis in industry/sector (Q 25)	CSR best practices in industry/sector (Q 24)	CSR challenges facing the recipient firm (Q 11)	CSR support from other stakeholders than customers (Q 14)	Third party certification of CSR (Q 21)			Forced by customers or competitors (Q 12)	Own initiatives (Q 15)	Demands on firm's suppliers (Q 16)	Plans for next year (Q 23)
G	Environmental	No	Toyota, maybe Perodua	Foreign labour	Not recently. Long time ago World Bank env. friendly machinery	Yes , for ISO certification	TS 16949 by end of year (incl. OHSAS 18001).	Yes, use consultancy support for training our trainers.	No	Yes	Yes	Yes
H	Upcoming with Siver Book	No	Toyota, Perodua	Particular challenge: Bio fuel	Yes, Government & Toyota	No.	ISO 9000, ISO 14001, OHSAS 18001, TS 16949 in process	Yes, if we get more budget.	Yes	Yes	No	Yes
I	Environmental, OHS	N.a.	No 'best practice'	Same as industry	No	No	ISO 9000, TS 16949	Yes	No	No	No	No

Table 4: Combined analysis of governance & upgrading of DC firms' primary & CSR activities in OO-relations in GVC+