



Are highly unionised industries socially responsible to their employees?

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Abstract

Corporate social responsibility towards employees (CSR-E) is a vital aspect of modern business that can promote employee rights, justice and standards of employment, which in turn can generate benefits for companies. From the perspective of stakeholder theory, companies are expected to act and react to the demands of their most powerful stakeholders. Therefore, previous studies on CSR-E are skewed towards employees, whom they view as relevant and powerful stakeholders, and view CSR-E as a tool for promoting employee engagement. However, these studies have neglected the labour union power of stakeholders over the CSR-E activities of companies, particularly in Malaysia. The presence of labour unions can increase the tendency for a company to observe a state of democracy, and the negotiation and collective bargaining power of these labour unions can narrow the gap between the expectations of employees and their companies. Nonetheless, the relationship between labour unions and CSR-E is only based on gut feeling and has never been examined in the Malaysian context. Given the differences in unionisation rates across industries, this study predicts that highly unionised industries practise CSR-E to a greater extent compared with non-unionised ones. Therefore, this study examines the relationship between highly unionised industries and CSR-E practice. Banking and financial institutions and real estate and properties were selected as highly and poorly unionised industries in this paper, respectively, and their ratings were calculated based on available data from the Malaysian Trade Union Congress. A total of 100 annual reports for financial years ending in 2017 and 2018 were gathered from 50 companies and were analysed for their content to measure CSR-E. Control variables, including size, profit and leverage, were also used to examine the relationship between CSR-E and unionisation. Highly unionised industries demonstrated a positive relationship with CSR-E practice.

Keywords: corporate social responsibility, employees, stakeholder theory, unionised industries

Introduction

In stakeholder theory, Ansoff posited that companies should be held accountable for accumulating value not only for their shareholders but also for their broader stakeholders

(Roberts, 1992) because, as Gray, Kouhy & Lavers (1995) contended, the sustainability of companies is directly related to the value of their employees. Therefore, corporate social responsibility (CSR) is perceived as a two-fold strategic tool for managing the expectations of stakeholders and for building the social credibility and reputation of companies. Previous studies perceive stakeholders as a group of shareholders, societies, governments, employees, labour unions, customers and environments just to name a few (Wang, Chin & Dogmin, 2011; Cooper & Uzun, 2015; Long, 2015; Boodoo, 2016).

Employees are considered the most important stakeholders of a company. To achieve their desired outcomes, companies should properly manage and sustain their employees. Mohammad, Al Tarafi & Alafi (2014) and Hernandez et al. (2016) argued that fair wages and salaries, occupational health and safety, education and training, gender and race equity and other social benefits are important to employees. The obliviousness of companies to these matters can contribute to the demotivation and insecurity of their employees, thereby resulting in high turnover (Tamm, Eamets & Motsmees, 2010; Tuzcu, 2014). By contrast, employees become highly productive and contribute to the bottom line of their companies if they are fairly rewarded and protected (Mohammad et al., 2014; Cavazote & Chang, 2016; Morogo, Cheluget and Mwangi 2016). Therefore, the rewards and protection measures adopted by companies for their employees are top deal in their CSR strategies.

Nonetheless, CSR practices are prevalent in certain industries and are always associated with the types of stakeholders. For example, CSR towards customers is highly associated with high-street businesses, such as the retail industry, and environmental-related CSR can be found in the oil and gas industry (Campbell, 2000; Campbell, Craven & Shrives, 2003; Campbell, Moore and Shrives, 2006). CSR presents a means for companies to respond to the demands of powerful stakeholders. In association with CSR towards employees (CSR-E), we incorporate labour union as a power stakeholder in our study and propose that labour unions have significant power over negotiations and establishing fair terms of employment with companies.

Stakeholders theory posits that the sustainability of a company greatly depends on the acceptance or approval of its employees. The impacts of disapproval become greater when employees are associated with labour unions (Rahman, Ahmad & Hassan, 2016). Unfortunately, Malaysia falls behind in this aspect compared with developed countries (Mohd Suhaimi, 2014). Therefore, the potential influence of labour union presence on the CSR-E practice of companies in Malaysia is yet to be empirically investigated. Previous studies on CSR have predominantly focused on social responsibility, customers and employees yet have failed to contextualise the external strength of employees in the form of labour unions. From the perspective of stakeholder theory, this study offers preliminary insights into the extent to which the presence of labour unions in the industry can be related to CSR-E practice. The following questions are central to this study:

- a) What are types of CSR-E in highly and poorly unionised industries?
- b) Are highly unionised industries socially responsible to their employees?

This study used the annual reports of Malaysian companies for financial years ending in 2017 and 2018 as sources of data to examine their CSR-E practices. All selected companies are listed in Bursa Malaysia. CSR-E was divided into 3 categories with 37 items. The industry unionisation rate (high and low) was determined based the proportion of the union membership of a specific industry to that of all industries in the country. We focus on 25 banking and financial institutions (highly unionised) and 25 real estate companies (poorly unionised) and perform multiple regression analysis to determine the relationship between industry unionisation and CSR-E.

This study offers several contributions to the literature. Firstly, to the best of our knowledge, this study is the first to associate CSR-E with stakeholders (i.e. labour unions) specific to Malaysia. This study also employs data from the Malaysia Trade Union Congress (MTUC) to understand the role of labour unions in practising CSR-E. Accordingly, the findings of this study can help MTUC identify those industries with high and low CSR-E. Secondly, our findings can help MTUC and other regulatory bodies in formulating strategies that can improve the CSR-E of certain industries through either political lobbying or direct negotiations. Thirdly, we focus on neglected stakeholders that have a powerful influence on CSR practices. When formulating their CSR strategies, companies should consider the proactive and reactive actions to the expectations of labour unions. Finally, given the power of labour unions, we extend our discussion to corporate strategies and labour unions, such as the effect of labour unions on human capital investment and efficiency. The rest of this paper is organised as follows. Next section presents a literature review and develops the research hypothesis. It is followed by the research methodology section. The research findings and discussion are presented in a section before the conclusion section of the paper.

Literature review and hypothesis development

Ullmann (1985) defined CSR as the response of companies to the social demands of their stakeholders that can improve their financial and economic performance. Elkington (1997) truncated such definition into 3Ps, that is, the responsibilities of companies to gain ‘profit’ for their shareholders, to care for their ‘people’ and to ensure that the ‘planet’ is environmentally sustainable. Specifically, CSR involves responsibilities towards employees and products (Haniffa & Cooke, 2005), societies and communities (Campbell, Moore and Shrive, 2006; Tuzcu, 2014), human rights (Reverte, 2009), customers and suppliers (Wang et al., 2011; Cavaco & Criffo, 2014), workplaces (Lindrof, Johnson & McGuire et al., 2012), social philanthropy (Closon, Leys and Hellemans, 2014), laws and ethics (Chaisena, 2016), employee rights (Balabanis, Philips & Lyal 1998) and environments (Babiak & Trendafilova, 2011).

CSR-E is essential for companies to achieve the desired outcomes of their strategies. Previous studies show that CSR-E-related strategies, such as fair wages and salaries, occupational health and safety, education and training, gender and race equity and other social benefits, are important to the performance of businesses (Mohammad et al., 2014, Cavazote & Chang, 2016; Morogo et al., 2016). The obliviousness of companies to CSR-E matters can contribute to the demotivation and insecurity of their employees, which in turn can lead to unacceptable levels of employee attrition (Tamm et al., 2010; Tuzcu, 2014). Good employees do not leave their companies but instead leave managers with poor CSR-E. Therefore, rewards and protection measures for employees should be included in the CSR strategies of companies to retain their existing employees and to attract new ones. Cavazote and Chang (2016) found that CSR-E, in terms of employee education, healthcare, profit sharing and retirement plans, can promote the productivity of employees and lead to improved business performance. In this case, companies should consider CSR-E not only as a legal and moral obligation but also as an investment in human capital. Morogo et al. (2016) argued that employee welfare and equity are positively associated with the financial performance of companies, whereas Mohammad et al. (2014) argued that business performance is significantly determined by CSR-E related to workplace conditions, salaries and wages and proper supervision.

Previous studies have measured the diversity of stakeholders according to the types of industries they investigate. Each industry has a specific group of influential stakeholders. For

example, retail customers are the most influential stakeholders in high-street businesses, such as the retail and fashion industry, whereas environmental-related stakeholders, such as conservation groups and Greenpeace, are the most influential stakeholders in the oil and gas industry (Campbell, 2000; Campbell, Craven & Shrive, 2003; Campbell et al, 2006). According to stakeholder theory, CSR strategies are formulated in response to the demands of powerful stakeholders. Accordingly, we focus on labour unions in this study because compared with individual employees, they show greater influence over negotiations and greater capability to establish fair terms in employment contracts.

A labour union is an entity that is formed by employees and operates as a democratic state to represent the employees and to protect their economic and social interests in employer–employee relationships. In other words, labour unions aim to safeguard the interests of employees and promote mutual relationships between an organisation and its employees (Napathorn & Chanprateep, 2011; Wilawan, 2007). Labour unions have increasingly become significant players in the labour market and political field of most developed countries because of their significant amount of power over negotiations related to employment contracts and healthy working environments (Cristiani & Peiró, 2015). These unions adopt a group approach to push employers into offering fair wages and welfare for their employees, ensuring fair employment, establishing good communication with employees and creating fair employment contracts (Checci & Corneo, 1998). In developing countries, labour unions promote and defend the interests and well-being of employees and their families and establish harmonious, dynamic and fair relationships with management (ILO, 2020). They can also help improve the health and safety of workers and achieve favourable social dialogues with the government or company management (Ramasamy, 2008).

Employees join labour unions for several reasons. For instance, Napathorn and Chanprateep (2011) found that employees join these unions to protect themselves from dismissal, negotiate for higher compensation and to secure legal representation. Joining these unions can also improve one's future career prospects (Zientara, Kujawski & Godfrey, 2015). For example, in the US, employees join labour unions to improve their career prospects, work environments and job satisfaction (Friedman, Abraham & Thomas, 2006). Furthermore, a survey conducted in Malaysia by Kumar, Martinez and Rose (2013) revealed that employees who join trade unions enjoy better pay and working conditions. Their voices are also heard, and they receive free legal advice, training and education. Ramasamy (2008) found that labour unions are concerned about the health and safety of employees. However, they do not merely solve the bread and butter issues of employees. These unions are not designed to meet a single purpose; instead, they can also offer economic benefits to employers. Unionised companies are also more profitable than non-unionised ones due to the fact that the former (Chanzi, 2017; Filho et al., 2018; Chun et al., 2015).

As for Malaysia, employees, employers and labour unions are interdependent on each other and are considered key components in modern socio-economic arrangements. The formation of labour unions in Malaysia started in the 1950s, during which the British government was advancing the development of these unions. Significant national rules and guidelines that govern labour unions and organisations were also put forward at the time, which resulted in the incorporation of the MTUC in 1958 (Sin Ru, Jamil & Yusof, 2014). MTUC is well recognised as a national trade union that represents employees in Malaysia and, through the Joint Labour Advisory Council, acts as a main reference for the Malaysian government on matters related to labour laws. MTUC has 930,734 members, which are categorised into in-house unions and national unions. As of 2018, MUTC has 613 in-house unions and 138 national unions. Table 1 shows the number of Malaysian trade unions and members in 2018 by sector. The private sector has the highest number of unions (497),

followed by the government or public sector (167 unions) and statutory body (87 unions). In terms of membership, the government or public sector has the highest number of members (471,164), followed by the private sector (389,885 members) and statutory body (69,685 members).

Table 1. Malaysian unions by sector in 2018

Sector	No. of Unions	No. of Members
Government	167	471,164
Private	497	389,885
Statutory body	87	69,685
TOTAL	751	930,734

Source: Malaysian Trade Union Affairs Department

The table above shows that Malaysia has a fair number of labour unions, which number of members is expected to increase over time. The statistic above point towards the desire of employees to protect their rights under the umbrella of unions and reflect the collective strength of Malaysian employees to counter their employers over issues related to their welfare, equity and employment opportunities.

Previous empirical studies have established a relationship between labour unions and CSR activities. Checchi and Corneo (1998) found that a high level of membership increases the power of labour unions in negotiating wage increase and argued that employees can only work with highly competitive wages. Meanwhile, Boodoo (2016) found that the number of union memberships positively affects CSR matters for employees, including health and safety and work–life balance. Based on the findings of previous studies and stakeholder theory, we hypothesise;

H: A highly unionised industry has a positive relationship with CSR-E.

Methodology

Source of data

This study used annual reports for financial years ending in 2017 and 2018 as sources of data for examining CSR-E. These reports were selected because they are frequently produced documents that are widely distributed amongst various groups of company stakeholders. These documents also contain information that reflect the intent and strategies of management (Campbell, 2000). Content analysis was applied to measure CSR-E in the narrative part of annual reports, excluding statutory financial statements and notes to the accounts. The information in these reports reflects the actual number of CRS-E practices adopted by a company. However, the repeated information in these reports was not counted.

Development of CSR-E categories

The CSR-E categories were constructed prior the content analysis. Previous studies have developed different categories of CSR-E. To ensure category exhaustiveness, we developed CSR-E categories following previous studies (Aras, Aybars & Kutlu, 2012; Chaisena & Usshawannitchakit, 2010; Rekker, Benson & Robert, 2014; Mohammad et al., 2014; Cavazote & Chang, 2016; Balabanis et al., 1998; Cheruiyot & Maru, 2013; Weldon, 2013 and GRI, 2015). We eventually developed 3 CSR-E categories with 35 evaluation areas as shown below. Table 2 presents additional details.

- a) Salaries and other benefits of well-being – 11 items
- b) Training, career development and education – 12 items
- c) Occupational health and safety – 12 items.

Table 2. Details of 35 evaluation areas of 3 CSR-E categories

	Salaries and other well-being	Training, career development and education	Occupational Health and Safety
1	Basic salaries above statutory minimum wages	Investment value for training and education	Expenditure value for health and safety
2	Bonus to employees	Training centre	Safety rewards to staff
3	Pension plan	Policy for skill and career development	facility infrastructure, healthy working conditions and prevention measure in workplace
4	Medical treatment	Training hours	Compliant to health and safety standards
5	Termination compensation	Awards, certificate or recognition for staff	Establishment for health and safety committee
6	Staff accommodation	Promotion plans	Reasonable working hours
7	Staff housing loan	Training and education for operational staff	Reasonable policy for accident compensation
8	Cash advances	Training and education for managerial staff	Reasonable policy for death in workplace
9	Paid maternity leave	Centre for health and safety	Protection policy for sexual harassment
10	Staff children education sponsorship	Fair opportunity for training and education	Safety policy for hazardous and risky equipment
11	Insurance policy for staff	Staff social gathering	Health and safety audit
12	-	Free access to labour union	Medical examination facilities

Measurement of industry unionisation

To measure the unionisation of industries, we adapted the methods of Rahman et al. (2017) and Zunker (2011), who measured industry unionisation rate based on the proportion of industry union membership to the total national union membership. Any industry whose membership percentages in the MTUC is above average is considered highly unionised. According to the MTUC dataset, the mean percentage of labour union membership is approximately 4%. Therefore, those industries with a mean labour union membership exceeding 4% is considered highly unionised, and all other industries are deemed poorly unionised. Despite ensuring unionisation at the industry level but not at the company level, this method is defensible on the ground that the unionisation environment in a specific industry would shape the CSR-E strategy at the company level. This method is also beneficial in terms of time and cost without sacrificing its validity.

After calculating the unionisation rate of all industries, we selected the banking and financial industry as a highly unionised industry and real estate and properties as a poorly unionised industry. As shown in Table 3, the membership percentage of banking and financial institutions is 7% (45,113 union members), whereas that of the real estate and properties industry is only 0.03% (2,729 members). The banking and financial institutions industry is services based and greatly depends on human capability, thereby explaining its high tendency to practice CSR-E to meet employee demands. We selected 25 companies from these industries that are listed in the Bursa Malaysia stock exchange, thereby resulting in a sample of 50 companies. A systematic content analysis was performed over the annual reports of 100 companies for financial years ending in 2017 and 2018.

Table 3. Sample data analysed

Industry	No. of unions	Membership (person)	No. of companies	No. of annual reports checked
Banking and financial (highly unionised)	47	45,113 (7%)	25	50
Real estate and properties (poorly unionised)	7	2,729 (0.03%)	25	50
TOTAL			50	100

Statistical model

The collected data were analysed via descriptive and multiple linear regression to test the relationship amongst the independent variable (highly unionised industry), control variables (size, profit and leverage) and dependent variable (CSR-E). Highly unionised industry was coded as 1, whereas poorly unionised industry was coded as 0. The assumptions underlying the regression model were tested for normal distribution, linearity between independent and dependent variables, multi-collinearity and uncorrelated error terms. The regression model is formulated as

$$CSR-E = \beta_0 + \beta_1HU + \beta_2PU + \beta_3SIZE + \beta_4PROFIT + \beta_5LEVERAGE + \epsilon_i$$

where:

CSR-E = corporate social responsibilities towards employees

HU = highly unionised industry

PU = poor unionised industry

SIZE = total assets

PROFIT = return on equity (ROE)

LEVERAGE = total debt to total assets

B0...β4 = coefficients to be estimated

εi = error terms

Findings and discussions

Descriptive findings

Figure 1 shows the number of CSR-E information mentioned in the annual reports of highly and poorly unionised industries for financial years ending in 2017 and 2018. These industries demonstrate a slight increase in their CSR-E frequency towards their employees across the years. The highly unionised industry recorded 629 frequencies in 2017, which increased to 657 in the following year. Meanwhile, the poorly unionised industry recorded 483 frequencies in 2017, which increased to 512 in the following year. Overall, 1,086 items related to CSR-E have been practised by 25 companies in the highly unionised industry, whereas only 795 items have been practised by 25 companies in the poorly unionised industry.

Figure 2 shows the distribution of CSR-E by the three main categories mentioned beforehand. The training, career development and education category had the highest CSR-E frequency (811), followed by occupational health and safety (546) and salaries and other benefits (517). Some differences were observed between the highly and lowly unionised

industries in terms of CSR-E frequency. Salaries and other benefits of well-being in the highly unionised industry recorded 323 frequencies, whereas that in the poorly unionised industry only recorded 194 frequencies. A clear difference was also observed in the training, education and development category, where the highly unionised industry reported 434 frequencies, whereas the poorly unionised industry reported 377 frequencies. Similarly, the highly unionised industry reported 325 frequencies in terms of occupational health and safety, whereas the poorly unionised industry only reported 221 frequencies.

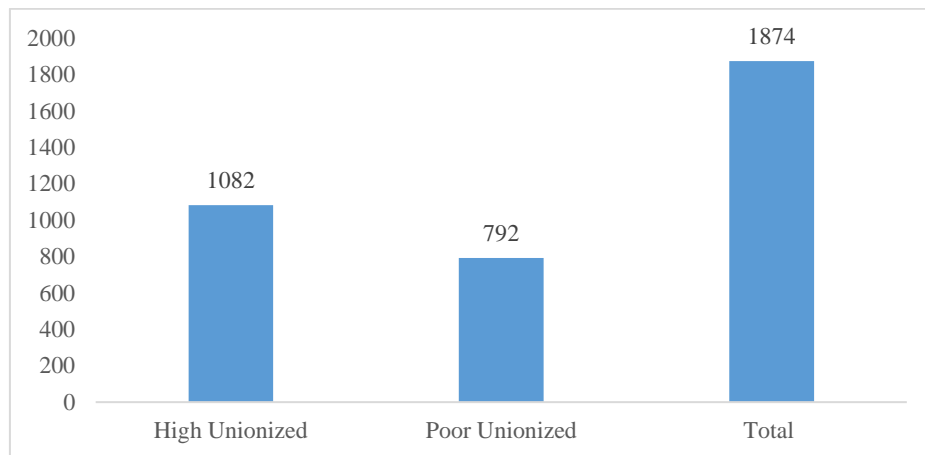


Figure 1. CSR-E Frequency by unionised industries

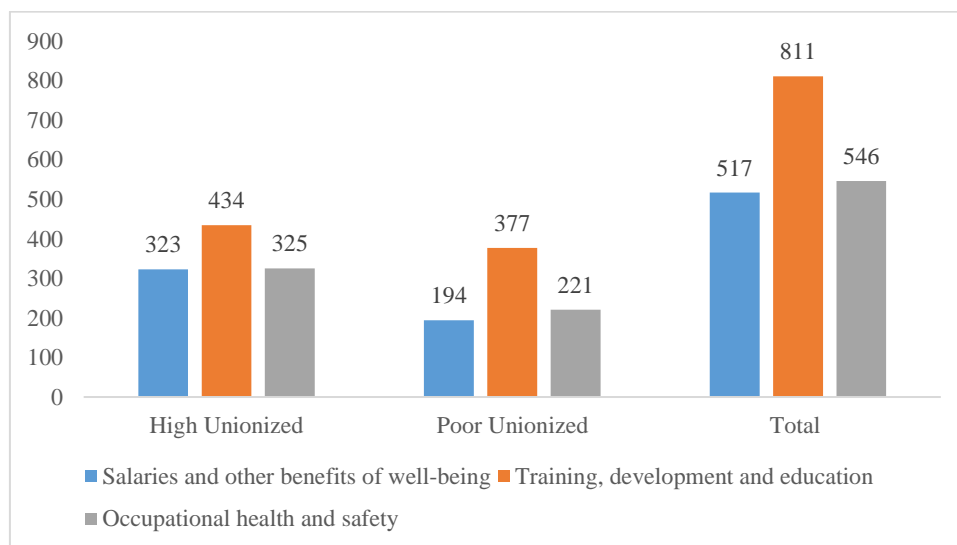


Figure 2. Comparison of CSR-E by main categories

Hypothesis testing

The multiple regression analysis results shown in Table 4 support a significant relationship between the highly unionised industry and CSR-E. The standardised regression weights reveal that the highly unionised industry is a significant predictor of CSR-E ($\beta = .439$, $t = 5.313$, $p < .001$), thereby supporting the hypothesis. Moreover, the regression analysis reveals that poor unionised industry follows the similar association with a weaker level ($\beta = .299$, $t =$

2.342, $p < .05$). Comparatively, it can be concluded that high unionised industry is stronger predictor that poor unionised industry to CSR-E. Company size is also a significant predictor of CSR-E ($\beta = .300$, $t = 3.220$, $p < .05$). However, company profit and leverage are not significantly related with CSR-E (profit $\beta = .112$, $t = 1.582$, $p > .05$ and leverage $\beta = .107$, $t = 1.082$, $p > .05$).

Table 4. Multiple linear regression

Model	Unstandardised coefficients		Standardised coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	8.170	3.056		2.674	.009
High unionised industry	3.800	.715	.439	5.313	.000**
Poorly unionised industry	7.422	3.619	.299	2.342	.024*
Size	1.192	.370	.300	3.220	.002*
Profit	.064	.041	.112	1.582	.117
Leverage	.017	.016	.107	1.082	.282

$R^2 = .579$, adjusted $R^2 = .566$ **significant at $p < 0.001$ *significant at $p < 0.05$

A stronger significant positive relationship was observed between highly unionised industries and CSR-E, thereby suggesting that these institutions are considered highly unionised industries backed by a strong force of labour unions, which in turn influences companies to practice more CSR-E activities. Operating within a highly unionised environment, banking and financial institutions in Malaysia are more responsive and sensitive to their respective labour unions compared with companies in poorly unionised industries. Amongst the banking and financial institutions in Malaysia, the Malayan Banking Bhd, Public Bank Bhd and CIMB Group Bhd have the largest number of CSR-E activities. Around 30,000 employees of banking and financial institutions in Peninsular Malaysia are members of the National Union of Bank Employees (NUBE) formed in 1958, whereas other employees are members of in-house labour unions. NUBE is the third largest labour union in Malaysia that boasts a superior service record for over 40 years. In other words, NUBE acts as a big brother on which bank employees can depend. Apart from its strong political lobbying exercises, NUBE usually organises strikes to voice out the unfairness of treaties and to promote states of employment, wellness inclusion and occupation security between banks and their employees. In terms of CSR-E categories, employee training, development and education was defined as a major responsibility of banks given the dependence of banking and financial institutions on their employees and the paramount importance of investing in skill development. This industry also considers employees not just strategic assets but also high-risk stakeholders given that they are highly sheltered under NUBE and in-house unions. Therefore, CSR in this industry is mostly channelled through training, career development and education to mitigate the potential threat posed by labour unions.

The significant relationship between real estates and properties industry with CSR-E is weaker at $p < 0.05$ compared to financial and banking industry. The low rate of national membership (0.03%) and number of labour union entity (7 unions) has lessen the unions power in this industry but it did not reduce the CSR-E practices significantly. Unlike in banking and financial industry, it can be agreed that CSR-E in real estate and properties industry is used as a tool to respond to the demand of individual employee but not to the labour unions. This is because there was still CSR-E in the presence of low rate of labour union. Perhaps, mostly workers in this industry are skilled, well-informed and there is strong individual bargaining power that requires no unions for CSR-E.

The findings of this work also support stakeholder theory by postulating that the CSR-E exercises must be in accordance with the types of stakeholders. This theory also postulates that the strongest stakeholders receive the most attention from companies. In this case, the high amount of trade union memberships in Malaysian banking and financial institutions signify the unionisation power of the industry to pressure banks to exercise CSR-E. The presence of labour unions also has a stronger power over CSR-E compared with individual employees. Therefore, the power of employees can be strengthened via a collective form as suggested by stakeholder theory. This result is consistent with Campbell (2007), who suggested that companies tend to act in a socially responsible manner when engaged in formal institutionalised dialogue.

Conclusion

This study aims to examine the relationship between highly unionised industries and CSR-E based on stakeholder theory. Content analysis was conducted over the annual reports of highly and poorly unionised industries to capture CSR-E. By employing the unionisation rating method, we identified banking and financial institutions and real estate and properties as highly and poorly unionised industries, respectively. CSR-E was then grouped into 3 main categories comprising 35 construct items. The frequency of CSR-E was revealed to be significantly related with highly unionised industries. The findings of this work offer several practical, theoretical and policy implications.

One limitation of this study is that only annual reports were used to identify CSR-E. Future studies may use CSR-E information from company websites to crosscheck our findings. Moreover, this study is limited within the Malaysian context, and future studies can focus on other countries with different legal frameworks, cultures and politics in respect of labour unions. In-depth interviews and surveys may also be conducted amongst managers to understand their real motivation behind practicing CSR-E. This study also adopted crude measurements based on MTUC data to derive industry unionisation ratings, and such limitation can be addressed in future studies by conducting in-depth measurements, such as identifying labour unions at the company level. In such case, the strength of unionisation can be measured based on the number of members, financial positions, governance structure and level of activities.

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