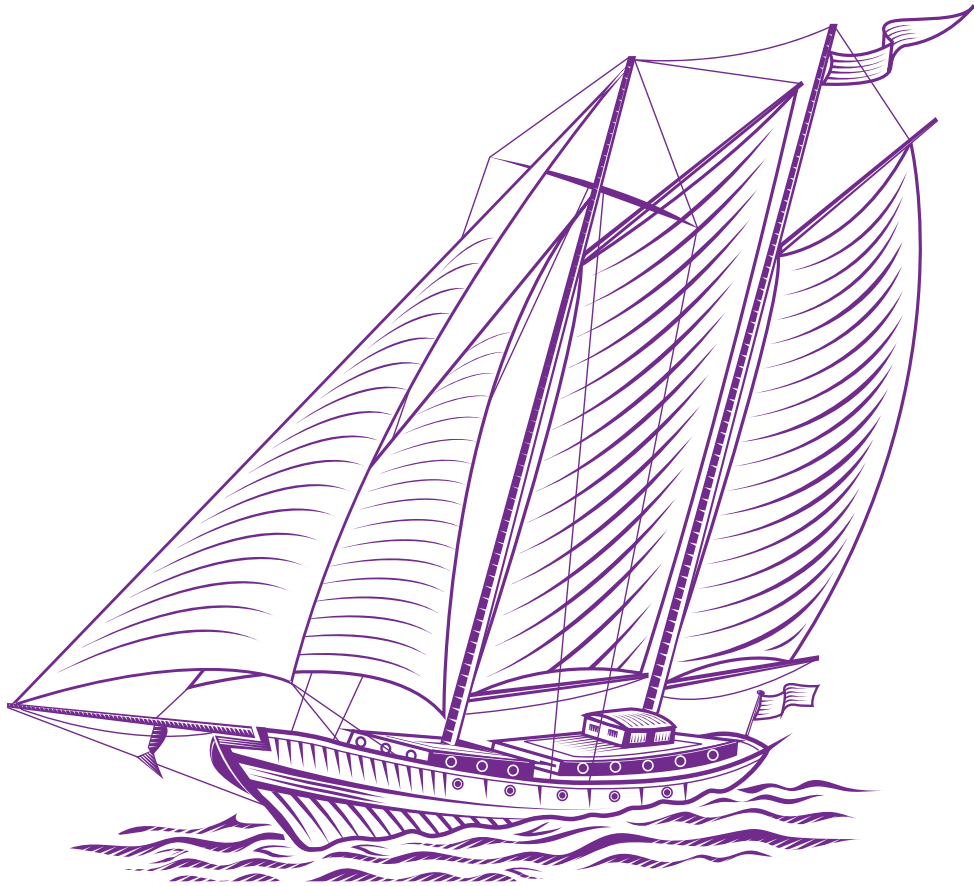




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**3**

*Theme of the Current Issue:*

***RESEARCH FOR SUSTAINABLE DEVELOPMENT IN  
DEVELOPING COUNTRIES***

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## **RESISTANCE FACTORS TO COMMUNITY PARTICIPATION IN SUSTAINABLE TOURISM DEVELOPMENT IN NORTHERN SUMATRA INDONESIA**

**ISMAIL BIN LEBAI OTHMAN<sup>1</sup>, SULAMAN HAFEEZ SIDDIQUI<sup>2</sup>,  
HER TAUFIK<sup>3</sup>**

**ABSTRACT.** This study aims to examine conceptual and empirical evidence about the perceptions of local community consisting of residents and small and medium entrepreneurs engaged in tourism in Northern Sumatra Indonesia. This study will review, assess, and identify the obstacles that are detrimental to community participation and successful tourism development in a given destination. Community development is part of tourism development of any destination. It has become a priority of relevant authorities to achieve sustainable development goals through tourism development. This review, moreover, will discuss how community participation and development can promote sustainable development of tourism. Discussion has focused on the inhibition factors such as the opportunities for cooperation with successful entrepreneurs; entrepreneurial and job opportunities, entrepreneurship and involvement in promoting of local products. This study investigated local residents as the sampling unit. The data has been analyzed using statistical methods through SPSS. The results depict that community participation in terms of entrepreneurial collaboration among population and product development have significant effect on development of tourism destination. It is recommended that a comprehensive study should be carried out in greater depth.

**Keywords:** community participation, sustainable tourism development, barriers to participation.

**JEL Classification:** M14, Q01, Z32

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## Introduction

Emergence of community participation is based on involving local communities in selection, design, and implementation of programs that will enrich life. The problem of tourism industry in northern Sumatra is related to issue of participation of local people in development of tourism in a destination. Tourism can be sustained if the tourism product is displayed in harmony with the local environment specifically involving community development. In this way local communities will get benefits of tourism revenue and tourism products. This, therefore, may make local community feel tourism activities as part of their life. However entrepreneurial opportunities exist in every dimension of community participation including economic, social and ecological, in conjunction with community development. According to Line (2012) and Myung et al. (2012) application of the concept of sustainable tourism still has not received full attention by stakeholders. Problems arise in sustainable tourism development by not taking into account needs of the local population which is outcome of non-involvement of local people in the process of tourism development. Usually local residents are considered inefficient in doing jobs that are created during the development of tourism. There are suggestions that participation of local communities provide many business opportunities. As a result, business opportunities and job opportunities are available in all dimensions and elements in tourism development aimed at local communities.

Collaboration with local residents in tourism development is very limited because it has been said and believed that local residents do not possess professional skills so as to qualify them as collaborating partners. Community participation to promote local products is limited at local level only. It is further said and believed that local communities do not possess capital and professional skills to promote tourism. As a result of

local products and services without being in line with global standards, the attractiveness of tourism destination is not promoted as desired. On the other hand social problems also arise in this process from religious and cultural factors when local communities are not included in the work of producing and marketing products containing values of religion and culture. Similarly, during development process, ecology problems arise when local residents themselves do not get involved in control and conservation of ecology in the area of tourism destination. This, in fact, gives rise to the opinion stating that local community is catalyst for ecological damage. These contrary views lead to two opinions about role of community participation in development of tourism destination. On one hand, local community is of the view that they have been excluded from the mainstream of development due to lack of participation from the initial planning to the implementation stage. On the hand, it is of the view that the locals are not ready to participate in tourism development process, face the challenges and take advantage of existing opportunities within their limited resources. Given this backdrop, this study seeks to focus on barriers to community participation in sustainable tourism destination development.

## **Literature Review**

The objective to create sustainable tourism development based on community participation need a lot of effort and passions and ability to turn objectives into realized achievement (Butler, 1975). Smith (1988) and Britton (1989) argue tourism does not need to have a theoretical framework, because tourism phenomenon does not have complex problems in social and cultural fields. In his study of development of tourism community in Australia, Simpson (2008) stated that the idea underlying community participation in tourism is based on proposition that without community involvement, development will fail. The idea of community involvement in tourism development is based on two insights. First, appropriate behaviors of the population in terms of supportive attitude, mindset and values as well as their knowledge should prevail. Second, the community participation should evolve to change from weakness to strength of tourism development and be able to stand on its own. This is



called a transformational investment (Simpson, 2008; Conyers, 1991). While Conyers (1991) in his study on community participation in tourism in New York elaborated that community involvement in tourism development is important because it is a means to obtain information about circumstances, attitudes, expectations and needs of the community at tourism destination.

Without presence of community in the tourism development, goals of sustainable development may not be realized. Shunnaq *et al* (2008), in their study in Jordan, argued that community engagement in development of tourism promotes sense of togetherness. The study mentions that involvement of a simple way to include local community in development of tourism and investment can positively influence people in a number of ways. This may include receiving income from abroad, an increase of regional income, job creation and preservation of tourism resources. In accordance with these findings, Sammeng (2000) states that concept of community development should be applied starting from planning stage in the area to the national scheme. According to Mikkelsen (1999) community participation can be achieved through investment in transformational and instrumental social capital. Through transformational community participation, weak state can be converted into a strong and independent one. This can be done with the idea to engage community in development of tourism destination. Through instrumental community participation, a sense of engagement is created among important actors of population during development of tourism. Ambar (2004) urged that local community may be involved from planning to implementation of tourism development program.

However, according to Franco (2010), Gamal (1997) and Gilbert (1995) there are also challenges in community participation. First, how the community should be involved so that the right resources come from the people, by the people and for the people. Second, how community involvement can be an alternative approach to replace the traditional centralized and top-down approach. The study by Gibbon, Labonte & Lavarack (2002) in Jordan noted that participation and development of community is an important concept in study of sustainable tourism. It is because success of tourism development will depend on ability and willingness of the community in planning and conducting tourism activities.

In line with this, study by Kwan (2003) states that local economic development should be in response to community development through community collaboration. This must be achieved by introduction of strategy of tourism destinations based on promotion of tourism as community based. Community-based tourism cannot be separated from concept of sustainable development because economic development may achieve long-term sustainability through collaboration of multiple stakeholders from local community (Dodds, 2012).

In addition to social inclusion and cultural sensitivity, concept of sustainability also includes environmental management and resource depletion rates which are certainly related with basic concepts of tourism and community participation (Hunter, 1997; Cevat, 2010). According to Jose Goldemberg (2007), community development refers to human life in present and future, and ideas about limitations of resources. This in turn is affected by technology, social organization and ability to meet needs of present and future generations. Traditional concept of development does not consider continuity of development in future. Gunn (1994), states the development of tourism business is not merely intended to identify some of the greatest possible advantages for investors, but more to do with impact of tourism to public and environmental resources. This form of tourism is born out of a community based strategy to strengthen the capacity of local community organizations. For sustainable tourism, it must involve local communities as part of tourism product. Industry must involve local communities in decision-making because they are the ones who will ultimately bear cumulative effect of tourism development.

Community participation should be seen as a tool to preserve unity and competitive ability of tourism products. But the challenge is that despite emergence of concept of community participation, development planning of tourism destination remains focused on commercial interests with very little community involvement. Purpose of tourism development planning should be focused more on conservation and development efforts for uniqueness and attractiveness of local community (Elliott, 1999). Study by David and Langdon (2007) describes a way to build community and to achieve goal of environmental sustainability by providing opportunities for communities to come forward with idea and commitment.

Based on above review, this study establishes a framework of community participation that inhibits sustainable tourism development at a destination as depicted in Figure 1.1.

In this framework, there are five specific elements of major concern to be made part of development of community-based sustainable tourism as mentioned below.

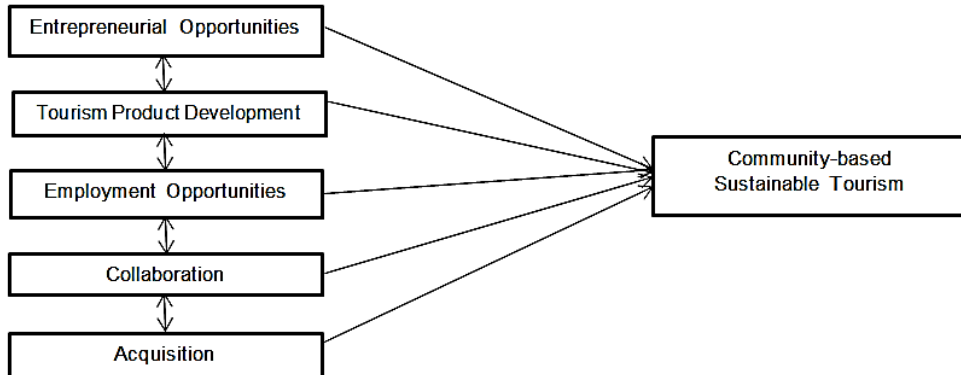
1. Opportunities for entrepreneurship
2. Tourism product substitution/promotion
3. Employment opportunities
4. Opportunities for cooperation
5. Acquisition of foreign companies

Based on above elements, the framework further suggests key tourism sub-sectors that require strategic response by policymakers as described below.

1. Central line of transportation networking
2. Hospitality services
3. The construction of a specific tourism market
4. The presentation of the local cultural heritage
5. Diversification and product handling
6. Investment and local employment
7. Community participation in business partnerships
8. Collaboration and integration of all relevant elements.

The basis of sustainable tourism development is to meet needs of tourists and local community in present and future; to adapt local resource on an on-going basis, preserve cultural, ecological processes and animal diversity, and life support systems (WSSD, 2002; WTO, 2000 WTO and EC, 1998; WT & TC, 1997). This view is in line with the principles of community development process i.e. it may not impair needs of local population and must be continuous.

## Conceptual Framework



**Figure 1.1.** Proposed conceptual Framework

## Research Methodology

This study has focused on examining the extent of community participation in tourism development. In particular it seeks to examine participation of community in economic, social and ecological processes. This participation should be along the elements of collaboration, promotion of tourism products, destination development, preservation of religion and culture, human resources, ecological quality, continuous development of quality to ensure sustainable development of tourism. Barriers to sustainable tourism development can be assessed through a number of elements such as community participation, entrepreneurship opportunities, job opportunities and collaboration. To evaluate the relationship between various elements of sustainable tourism destination development, the study adopted survey method of data collection using questionnaire. Survey research method was employed to obtain data directly from respondents using questionnaires as a data collection instrument. Their response to the questions enabled analysis of relationship among study variables. Target population in this study has been local population in three villages located in

tourism destination namely Regensi Langkat, Karo, and Simalungun. Sample drawn from each village were 100 to make it total 300 respondents. Demographic characteristics of respondents were used to categorize them based on seven criterion namely gender, residence status, monthly income level, age group, education level, marriage status, occupation. Sample respondents were selected by using simple random sampling technique. Responses obtained from distribution of questionnaire were used in analysis phase of study using descriptive statistics, regression analysis and tests of significance (Erlina, 2008; Hamid in Erlina, 2008; Walle, 1997; Bryman, 1989; Tyrell, 1984; Moser et al., 1971).

## Discussion

The mean of responses of all variables is presented in Table 1.1.

**Table 1.1.**  
Means and SD of Variables

<b>Dimensions</b>	<b>Element</b>	<b>Average Means</b>	<b>Standard Deviation</b>
Economy	Collaboration	2.43	1.21
	Product promotion	2.46	1.23
Social	Religious and culture	2.40	1.17
	Human resource development	2.87	1.37
Ecology	Quality	2.54	1.24
	Continuous development	2.11	0.96
Sustainable Development	Community participation	3.07	1.31
	Entrepreneurial opportunities	2.85	1.33
	Employment opportunities	3.05	1.34
	Cooperative Quality development	2.85	1.33
		2.89	1.33

The mean values of elements of economic, social and ecological dimensions of tourism development are closer to score 2.50. This value indicates that respondents tend to disagree with the statements measured using a five points Likert scale. These indicators used an interval scale by Walle (1997). The decision value of the average score are namely: (<2.50 = less); (2:51 to 3:49 = average); (> 3.50 = good). The results depict that not all elements and dimensions of development are included in the community participation. Furthermore, the results of table 1.2 with significance level of 0.05 depict that there are elements of development dimensions which are not reflective of community participation.

**Table 1.2.**

Dimensions of Community-based Development Related with Sustainable Tourism Development

<b>Dimensions of Community-based Development</b>	<b>Elements of Sustainable Tourism Development</b>				
	Commu- nity partici- pation	Entrepre- neurial Opportu- nity	Employ- ment Opportu- nity	Coope- ration	Quality Dev.
<b>Collaboration</b>	0.01	0.92	0.00	0.37	0.99
<b>Product promotion</b>	0.02	0.36	0.07	0.62	0.33
<b>Destination Dev.</b>	0.00	0.00	0.00	0.00	0.00
<b>Religious /culture</b>	0.73	0.76	0.19	0.95	0.62
<b>Human resource</b>	0.19	0.26	0.98	0.14	0.26
<b>Quality development</b>	0.03	0.64	0.00	0.28	0.00
<b>Continuous development</b>	0.08	0.42	0.03	0.12	0.81

Source: Adapted from SPSS. sig. > Value  $\alpha$  0.05 per degree of reliability of 95%

Based on results in Table 1.2, it is concluded that 5 out of 7 dimensions of community-based tourism development have been found significantly related to element of community participation in sustainable development of tourism. Community collaboration relates significantly with the elements of community participation and employment opportunities but does not relate significantly to entrepreneurial opportunities, cooperation and quality development. Product promotion is significantly

related with community participation but not with other elements of sustainable tourism development. Destination development relates significantly with all elements of dependent variable dimensions. Quality Development dimension of community-based tourism significantly relates with community participation, employment and quality development but does not relate significantly to other elements such as entrepreneurial opportunities and cooperation. Continuous development relates significantly with the elements of employment but not with other four elements. The dimensions of religion/culture and human resources have been found not related with elements of sustainable tourism.

## **Conclusion**

Positive community participation will lead to earning revenues from an increase in national income, employment and tourism resource conservation as has been proposed by many researchers. Sustainable tourism concept based on community participation can be applied in planning and implementation of tourism development at local, regional or national level as postulated by Shunnaq (2008). However, the results of low scores on means and strength of each variable depicts a steady resistance factor as perceived by the community.

The element of community participation exists in collaboration, tourism product development/promotion, destination development, ecological quality, and quality of sustainable development to provide economic functionality. But there is no element of community participation prevailing in religious/cultural and human resources. Tourism provides an opportunity for the community to do business. Whether that business is related to tourism depends on the creativity of entrepreneurs, both large and small, to provide services or product offering to the tourists. It is important that tourism is preserved and enhanced as an economic driver for local economy. Tourism development should be planned and managed in a sustainable way to enhance and conserve natural environment and eco system as well as ensure economic and social well-being of all residents; and attract visitors with shared values.

This study suggests that a total new approach to community participation is inevitable as little information has been obtained about the capability and ability of the residents. Welch & Mann (2001) have suggested that new information is important in trying to explain opportunities and challenges. By including technological changes, political pressure, macro environmental factors and social trends it can be helpful for local entrepreneurs to obtain and combine resources to generate greater worth. Political and policy changes can be source of entrepreneurial opportunities because these changes allow combining resources in new ways and thus becoming more productive. Conyers (1991) suggests that community involvement in tourism is very important. Community participation is a useful tool to get information about attitudes, expectations, and needs of the community. Without presence of local community, the development program for tourism destination will most probably be destined to fail. Thus, ability to reduce the resistance factors will encourage more community participation in future.

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## PERSPECTIVES ON CONSUMERS' RESPONSE TO CORPORATE SOCIAL RESPONSIBILITY

KAMARUDEEN BABATUNDE BELLO<sup>1</sup>, AHMAD JUSOH<sup>2</sup>,  
KHALIL MD NOR<sup>3</sup>

**ABSTRACT. Purpose:** This study presents a review of literature on consumers' perception and responses towards the perceived corporate social responsibility (CSR) of companies, with a view to provide additional insight into the phenomenon.

**Methodology/Approach:** The study is essentially a review of existing literature, which entails the identification, review and synthesis of existing studies on the phenomenon.

**Findings:** The review of previous studies on the subject matter reveals that there is no general consensus on the findings regarding consumers' perceptions and response to CSR. The findings from previous studies have been equivocal and largely inconclusive as to whether consumers reward companies CSR efforts with positive responses.

**Research limitations:** The research is basically a review and synthesis of previously conducted studies, and no new data was collected.

**Practical implications:** The findings and conclusions of this study have practical implications for research on the topic of consumers' perceptions and response to perceived social responsible behavior of companies. Essentially, the findings point to the fact that the field of study relating to how the consumers perceive and respond to CSR remains a fertile ground from research to enable management theorists and practitioners get a better understanding of the phenomenon.

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**Originality/Value:** The study highlights some important reasons for the mixed findings in previous studies, and further points to the need for researchers to adopt varied methodologies/approaches when conducting researches on how consumers perceive and respond to CSR in contextually different environments.

**Keywords:** Corporate social responsibility, consumers' response, methodologies/approaches.

**JEL Classification:** M14

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## 1. Introduction

The practice of CSR is well recognized and enjoined on businesses all over the world. The basic premise of CSR is to encourage businesses to contribute positively towards the general improvement of the environment where they operate. Over the years, researchers and business practitioners have introduced a strategic angle to the CSR argument, noting that companies who are perceived as socially responsible usually enjoyed positive responses from the various stakeholders of business. Discussions on the motives behind companies' CSR adoption and practice can therefore be categorized under two broad headings: the normative and the instrumental cases for CSR engagement (Lam and Khare, 2010; Maignan and Ferrell, 2004; Smith, 2003; Swaen and Chumpitaz, 2008). Scholars who hold on to the normative standpoint believe that it is a moral duty for the companies to engage in CSR. As such, it is considered as the 'right thing to do' (Lam and Khare, 2010; Smith, 2003), since the company operates within the society, and also utilizes the resources provided therein (Carroll, 1999; Jones, 1980; Maignan et al., 1999; Sen and Bhattacharya, 2001). On

the other hand, some scholars are of the opinion the CSR is not just the 'right thing to do', but is actually the 'smart thing to do' (Bhattacharya and Sen, 2004; Lam and Khare, 2010; Smith, 2003). This instrumental view, which is also referred to as the business case for CSR (Maignan and Ferrell, 2004; Porter and Kramer, 2006), is based on the expected returns that companies may receive from engaging in CSR activities, e.g., better reputation, corporate competitiveness, improved patronage and loyalty, and positive word-of-mouth (Bhattacharya and Sen, 2004; Hartmann, 2011; Klein and Dawar, 2004; Lee and Shin, 2010; Pérez and Rodríguez del Bosque, 2015; Ricks Jr, 2005; Swaen and Chumpitaz, 2008). With this expectations of positive returns therefore, it is expected that companies will have an additional motivation to engage in CSR.

## **2. The Business Case for CSR**

Even though it has come to be argued that companies' motives for engaging in CSR is usually a combination the two motives highlighted above, the majority of scholars have presented compelling reasons to justify companies' adoption of CSR as a business and marketing tool (Becker-Olsen et al., 2006; Bhattacharya and Sen, 2004; Bhattacharya et al., 2009; Brown and Dacin, 1997; García de los Salmones et al., 2005; García de los Salmones et al., 2009; Hartmann, 2011; Smith, 2003). The argument holds that, with the rising competition in most markets and industries, product and process standardization have become the norm in today's global marketplace. As such, product and brand differentiation strategies can no longer be relied upon as means of achieving competitive advantages (Bhattacharya et al., 2009; Bhattacharya and Sen, 2004; Gupta, 2002). Companies now have to turn to CSR initiatives, which are adjudged as more innovative and less imitable means of achieving differentiation, as well as securing and strengthening customer relationship (Bhattacharya and Sen, 2004; Melo and Garrido-Morgado, 2012).

The potential positive returns have resulted to the adoption of CSR as a business and marketing tool by companies, which has also led companies to focus on the possible favorable returns they can get from the customers. The consumers have become one of the most targeted groups for

CSR communication (Bhattacharya and Sen, 2004). The general expectation of the companies is that, when consumers become aware of companies CSR initiatives, they are likely to respond favorably to such a company and the services/products offered by such a company (Bhattacharya and Sen, 2004; Brown and Dacin, 1997; Christopher and Luke, 2013; Creyer and Ross, 1997; Folkes and Kamins, 1999; Hutton et al., 2001; Khan et al., 2015; Kolkailah et al., 2012; Luo and Bhattacharya, 2006; Sen and Bhattacharya, 2001). This has led to the development of a dedicated branch of research that has over the years explored the relationship between companies' practice of CSR and the consumers' responses.

### **3. Consumer Responses to CSR**

Based on the aforementioned expectations of favorable responses from consumers towards companies that engage in CSR, a series of researches have been carried out by several authors with the aim of determining the link, and possible response/benefits that companies will get from engaging in CSR. Scientific study on the effect of social responsibility on consumer responses was pioneered by Brown and Dacin (1997), who developed a framework that was used to investigate the relationship between corporate associations and consumer product responses (Berens et al., 2005; Du et al., 2007; He and Li, 2010; Lee et al., 2011).

The main idea behind Brown and Dacin's (1997) study was to find out how consumers are influenced by what they know about a company, in their responses towards the company and the products offered by such company. Thus, Brown and Dacin (1997) came up with the concept of corporate associations, which they defined as comprising of two major components, relating to information that consumers may associate with companies. The first is corporate ability associations (CA), which relates to consumers' perceptions about a company's expertise in delivering service offerings, while the second component is corporate social responsibility (CSR), which relates to consumers' perceptions and knowledge about the character of the company with regard to societal and/or stakeholder obligations (Brown and Dacin, 1997). The findings from the study indicated

that CSR directly (and positively) influences consumers' evaluation of a corporation; while at the same time indirectly influences consumer product responses through corporate evaluation.

Over the years, the research by Brown and Dacin (1997) has remained a referent point for studies seeking to investigate the link between CSR and consumer responses. Within the past two decades, there has been a proliferation in the number of researches focused on investigating the relationship between CSR and consumer responses, though with high concentration on the developed countries of the world (Alsmadi and Alnawas, 2012; Belal, 2001; Carvalho et al., 2010; Fatma and Rahman, 2015; Jamali, 2007; Jamali and Mirshak, 2007; McDonald and Hung Lai, 2011; Visser, 2008). A review of the major findings from these studies shows that there is a general inconclusiveness as regards to consumer perception and response to CSR (Bhattacharya and Sen, 2004; Hartmann et al., 2013; Kolkailah et al., 2012). Table 1, below presents a summary of major findings from some prominent researches conducted with the aim of investigating the relationship between CSR adoption and consumer responses.

**Table 1.**

Summary of major findings in the CSR – consumer response studies

<b>Citations</b>	<b>Main Findings</b>	<b>Nature of Relationship</b>
Berens et al. (2005); Brown and Dacin (1997); Folkes and Kamins (1999); García de los Salmones et al. (2009); Khan et al. (2015); Luo and Bhattacharya (2006); Murray and Vogel (1997); Sen et al. (2006)	Information about company's engagement in CSR leads to increase in consumers' positive attitudes towards the company and/or the brand	<b>Positive effect of CSR on consumer perceptions and responses</b>
Bhattacharya and Sen (2004); Sen and Bhattacharya (2001)	Consumers show preferences for buying products from companies that invest in CSR	
Klein and Dawar (2004); Ricks, Jr (2005)	CSR functions as "insurance policy" in crisis situations: the importance of pro-active CSR commitment	



Citations	Main Findings	Nature of Relationship
Creyer and Ross (1997); Lee and Shin (2010)	Consumers are aware of and interested in CSR and say that CSR is a purchase criterion	
Creyer and Ross (1997); Carvalho et al., (2010)	Consumers are willingness to pay premium (higher) prices for products from companies engaging in CSR	
Khan et al. (2015); Swaen and Chumpitaz (2008)	Positive CSR perceptions serves as a boost to customer trust	
Klein and Dawar (2004); Murray and Vogel (1997)	Consumers are willing to defend companies engaging in CSR against criticism	
Klein and Dawar (2004); Ricks, Jr (2015)	CSR has a spillover or halo effect on otherwise unrelated consumer judgments, and situations not related to companies core competencies	
Auger et al. (2003); Boulstridge and Carrigan (2000); Carrigan and Attalla (2001)	Consumers are largely unaware and lack of knowledge about CSR; and very little knowledge about which companies are CSR committed or not	<b>Insignificant/Negative effect of CSR on consumer perceptions and responses</b>
Boulstridge and Carrigan (2000); Carrigan and Attalla (2001); Chomvilailuk and Butcher (2010); Mohr et al. (2001); Berens et al (2005); Becker-Olsen et al (2006); Auger et al (2003)	Consumers respond more favourably to traditional decision criteria such as product features, price and convenience than CSR	
Bhattacharya and Sen, (2004); Folkes and Kamins (1999)	Consumers' are more sensible to irresponsible than responsible corporate behavior – and their attitudes are more affected by unethical behaviour than by pro-CSR behavior	

Citations	Main Findings	Nature of Relationship
Lichtenstein et al. (2004); Sen and Bhattacharya (2001)	Consumers' support of the CSR domain chosen by the company matters	
McDonald and Hung Lai (2011); Castaldo and Perrini (2004); Castaldo et al. (2009); Perez and Rodriguez del Bosque (2015)	CSR related to environmental or philanthropic initiatives have lesser influence on consumers, compared to those CSR initiatives that directly concern the consumers.	
Arredondo-Trapero et al. (2010); Kolkailah et al. (2012) Marquina Feldman and Vasquez-Parraga (2013)	consumers' favorable disposition towards CSR is inconsistent with their actual buying behavior	
Sen and Bhattacharya (2001);	Consumers have the tendency to punish firms that are perceived as insincere in their social involvement	

Source: Compiled by the authors

A cursory look at these findings shows that it is difficult to compare findings and make a general conclusion regarding the actual nature of consumers' perception and response to CSR (Alvarado-Herrera et al., 2015). While several studies have reported direct and positive relationships between companies CSR and consumer responses, some other studies have indicated that the relationships between companies CSR and consumers' related outcomes are not always direct and evident (Beckmann, 2007; Castaldo and Perrini, 2004; Castaldo et al., 2009; Marquina Feldman and Vasquez-Parraga, 2013). These inconclusive and mixed findings thus indicate that the field of research relating to CSR and consumer behavior variable remains a fertile area for prospective researchers.

#### 4. Discussion

The inconclusive nature of the findings in most of the studies investigating the CSR effect on consumer behavior response has led researchers to attempt identifying the possible reasons for the mixed findings, as well as to proffer ideas and solutions to the perceived problems. One of the most prominent causes of the variations in the findings relating to consumer perception and response to CSR is that of methodology applied in these studies (Beckmann, 2006, 2007; Hartmann, 2011). Studies on CSR and consumer behavior variables have often adopted either one of the three generic approaches used for empirical studies (i.e. experimental, attitude surveys or qualitative-focus group studies), with each approach showing its potential effects on the findings (Beckmann, 2006, 2007; Hartmann, 2011; Mohr et al., 2001).

The general tendency, with regards to the use of the three approaches, has always been that, while attitude surveys and opinion polls typically suggest high levels of consumer interest in CSR, and positive effects on product evaluations and purchase intentions, experimental and quasi experimental designs usually lead to either inconclusive or more complex results, indicating that the effect of CSR on consumer behavior is influenced by several mediating and moderating variables (Beckmann, 2007; Bhattacharya and Sen, 2004; Hartmann et al., 2013). For qualitative researches involving focus groups and in-depth interviews, which usually entails a more detailed analysis of consumers understanding, perception and response to CSR, the results mainly reveal a lack of interest and knowledge and skepticism to CSR on the part of the consumers (Beckmann, 2007; Carrigan and Attalla, 2001; Hartmann et al., 2013).

Another major reason for the mixed findings regarding consumers' response to CSR is the measurement of perceived CSR (Alvarado-Herrera et al., 2015; Peloza and Shang, 2010). Although this is closely related to the methodology factor explained above, the problem however has its roots in the lack of specificity in the definition of CSR as well as its dimensions (Alvarado-Herrera et al., 2015; Babatunde and Akinboboye, 2013; Peloza and Shang, 2010). The fact remains that CSR means different things to different people across cultures, economies, industries, and stakeholder groups, and even within specific stakeholder groups (Ailawadi et al., 2014;

Babatunde and Akinboboye, 2013). This has made it difficult to generalize the perceived CSR initiatives either to be performed by companies or to be measured in CSR researches (Alvarado-Herrera et al., 2015; Lee et al., 2008; Turker, 2009). The situation with most CSR researches is such that various dimensions and measurement scales have been used in different studies (Alvarado-Herrera et al., 2015; Turker, 2009), most of which attempted to explore the influence of CSR in purchasing decisions in general, and not in particular industries (Papafloratos, 2009). There is thus a high tendency for differential findings, especially when one considers the fact consumers “often use different purchasing criteria for different categories of product” (Papafloratos, 2009, p. 7).

One other reason that possibly accounts for the equivocal findings in CSR and consumer responses studies is the issue of awareness of CSR on the part of the consumers. Several scholars have raised the issue of consumer awareness of CSR/ethical behaviors of companies as a possible determinant of consumers' perception and response towards CSR (Auger et al., 2003; Bhattacharya and Sen, 2004; Dolnicar and Pomeroy, 2007; Maignan, 2001; Mohr et al., 2001; Pomeroy and Dolnicar, 2009; Sen et al., 2006; Yusof et al., 2015). The argument among most of these researchers is that awareness of CSR ought to be a necessary pre-requisite to consumer responses. Studies have however reported low levels of awareness among consumers, regarding which companies are socially responsible, and what specific CSR activities they perform (Pomeroy and Dolnicar, 2009). Thus, leading to suggestions that the effectiveness of CSR initiatives in eliciting favorable consumer attitudes and purchase behavior has remained only of theoretical, but not practical (Pomeroy and Dolnicar, 2009).

The low level of awareness of CSR on the part of consumers has led to calls for companies to educate the consumers on the CSR initiatives being implemented by the companies (Auger et al., 2003; Pomeroy and Dolnicar, 2009). This call is supported by the findings in some studies, which showed that a large number of consumers, especially in America and the UK, have indicated that increased information on companies social and ethical behavior would positively influence their purchasing decisions (e.g., Cone Corporate Citizenship, 2004; Dawkins, 2004). Regarding this call for increased information and communication efforts on companies' CSR however, researchers have called for caution on how best to communicate CSR to consumers in order to avoid negative attributions (Du et al., 2010).

This is because prior evidences have shown that consumers usually ascribe some ulterior motives to CSR information coming directly from companies (Du et al., 2010; Pomeroy and Dolnicar, 2009). Thus, a major challenge facing companies regarding CSR communication has been to find answers to such questions as what, and how to communicate CSR in order to achieve favourable customer responses, rather than negative attributions (Beckmann, 2007; Du et al., 2010; Pomeroy and Dolnicar, 2009).

## **5. Conclusion**

The importance of CSR as a business practice cannot be overemphasized. Engagement in CSR practices provide opportunities for companies to contribute to the general wellbeing of the society where they operate, while at the same time generating positive goodwill for the companies in the eyes of the stakeholders. The fact that CSR engagement represents additional costs to companies (Ailawadi et al., 2014; Christopher and Luke, 2013; Luo and Bhattacharya, 2006; Poolthong and Mandhachitara, 2009) however requires that the companies should be able to justify these costs (Poolthong and Mandhachitara, 2009). This perhaps accounts for the interests that researchers and business practitioners have shown in trying to explore the extent to which companies reap positive returns from investing in CSR.

The research stream on consumer responses to CSR has produced mixed findings regarding the consumers' willingness to reward companies' CSR with positive responses such as favorable corporate evaluation and trust, perceived service quality, customer satisfaction, purchase intention, increased share of wallet and loyalty. This article presents a review of the findings in past and contemporary research on consumer response to CSR, as well as the possible reasons for the mixed and inconclusive findings in most of these researches. Based on the possible reasons identified and discussed in this article, we conclude that one of the major challenges currently facing researchers is to decide whether context-specific approaches should be adopted for CSR studies across the world, rather than using uniform approach. The implication therefore, is that the issue of CSR and consumer behavior will continue to remain a fertile ground for research.

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## **FACTORS INFLUENCING THE INTENTION TO USE E-GOVERNMENT SERVICES IN ALGERIA: AN EMPIRICAL STUDY**

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**ABSTRACT.** The purpose of this paper is to investigate about behavioral intention of an Algerian citizen to use e-government services and also to see certain factors effecting to use these services. The research model includes; subjective norms and behavioral intention to use e-government services have been developed based on the technology acceptance model (TAM), which is supported by the theory of reasoned action (TRA) and theory of planned behavior (TPB). The overall framework has been applied to understand the intention to use e-government services in the context of Algeria. Furthermore, there are two independent variables family and media, which influence through mediation i.e. subjective norm on the dependent variable of intention to use e-government services. The study used 300 questionnaires, which was sent to Algerian students, 100 respondents have replied, which is about 33% response. However, the findings of this research analysis have shown that, family influence has a direct, positive and significant relationship towards intention to use e-government services, whereas media influence is significant towards intention to use e-government services with the mediation of subjective norm. Consequently, subjective norm mediates positively in the relationship between family influence and intention to use e-government. Thus, the

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contribution made by this study is to provide further insight and a better understanding of citizens of Algeria to use e-government services. The study represents a guideline for establishing an appropriate model for e-government adoption of citizens' perspectives.

**Keywords:** e-government services, family influence, media influence, technology acceptance *model (TAM)* and the *theory of reasoned action (RAT)*

**JEL classification:** M15

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## 1. Introduction

In the last three decades, an influential research stream has emerged which highlights the dynamics of force of e-government services. E-governments are going-on line and using the Internet to provide public services to its citizens. Electronic government refers to government's use of technology, particularly web-based Internet applications to enhance the access to and delivery of government information and service to citizens, business partners, employees, other agencies, and government entities. It has the potential to help build better relationships between government and the public by making interaction with citizens smoother, easier, and more efficient. There are three main objectives for measuring e-government on the national level: Establishing a real political administration. Adopting a unified strategic plan common to all ministerial departments. Establishing organizational structures headed by the prime minister with the co-operation of all ministerial departments which have political influence (Alharbi & Hawryszkiewicz, 2015; Anastasopoulou & Kokolakis, 2013; E-government & Simplification, 2007).

Indeed, a government agencies report that, utilizing electronic trading will helps to enhance center business operations and communicate data to give rapid services in order to expand the group of customers. The

government has built up e-government and invested in billions to develop electronic-based exchange systems. This initiative allows governments by giving new channels of interaction with various government offices and business association prompting an expansion in government execution and proficiency. At Dubai seminar in 2007, the instrument and method of assessment, the national of advisory committee on e-government has a various specialists who submit reports and summaries the finished work on a quarterly, half year, and yearly basis. Additionally the committee then prepares and presents the national report containing official statistics on the utilization of ICT for administrative simplification. 50 - Algeria has presented a project, permitting every family to acquire its own PC and Internet access. Moreover, Algeria has worked on decreasing prices, encouraging and facilitating loans and instalments without forcing them to pay interest rates. - Furthermore, various projects have been built up permitting citizens to relate better to the judicial system and providing them with official report (the legal record, sentences, nationality etc.) in fast way. These projects were accepted by the citizens (Alharbi & Hawryszkiewicz, 2015; E-government & Simplification, 2007).

Moreover, it assists citizens by new sources of cooperation with several governmental departments. Based on the diversity of beneficiaries, e-government projects have been categorized into three main extents: government-to-citizen (G2C), government-to-government (G2G) and government-to-business (G2B) (Alsaghier & Ford, 2009). However, the primary issue needs to address is that, e-government success depends on citizens and their willingness to use these services, since they create the major sector of beneficiaries. Therefore, government has to ensure that, their projects are being utilized efficiently and effectively by citizens in order to gain the potential profits (Lean, Zailani, Ramayah, & Fernando, 2009). Moreover, the study focuses on the significance, by indicating the key components of e-government acceptance with respect to citizens' perspectives. However, the results of the study highlight some suggestions and rules for decision makers to have a clear understanding of the adoption development, especially in a distinctive context such as Algeria. It is also hoped that, the study reveals the reasons for failure to adopt the new services (Alruwaie, El-Haddadeh, & Weerakkody, 2012).

The current study is expected to assist government policy and decision makers to understand the relevant issues involved for identifying the challenges faced by citizens to establish e-government services in Algeria. Moreover, a seminar, which was held in Dubai on (12-13 March 2007) regarding Measuring and assessing E-Government services of Arab nations, with assessing its impacts to monitor the progress of e-government. Which needs to be introduced in Arab nations to have a clear understanding of “e-government success”. Therefore, to understand the effect of e-government in society – the common indicators need to be developed. That is why; a study has been established to find out common agreed indicators to measure the deployment of that system by reporting the results. However, the delegates intervening in this conference session has recognized the significance of implementing those systems, to measure ICT.

Additionally, Empowering change in government, to gain more political support, and justify investment decisions (Tunisia), evaluation of e-government progress being made in (Lebanon), shaping the direction of e-government projects to support a better government agenda in (Morocco), and establish a set of indicators which can mentor business investments in the region (E-government & Simplification, 2007).

In line with the previous discussion, evaluation would help to raise the return-on-investment to establish better culture and to enhance the efficiency between government organizations (Jordan, Syria). Empower Exchange of experiences and ideas plays a an important role in those nations which are still in early phase of e-government development so that they learn from other Arab and OECD countries avoid mistakes. Some pilot measurement and assessment projects are right now continuing in Arab countries, whereas few cases are more organized in their methodology, to measure and evaluate the e-government. Most of these Arab countries are along the measurement phase like (Algeria) and few efforts have taken place. Lack of a structured framework and methodologies for e-government establishment is also a key challenge. The poor data quality (lack of data standards, data dispersion) increases the cost of data collection for Arab countries and represent a barrier to e-government measurement (E-government & Simplification, 2007). Other than that, the experience of Algeria in e-government is too brief to discuss at this point of time. However, recent surveys have received positive significant results after analyzing citizen’s satisfaction with public service performance.

According to Organization for Economic Co-operation and Development (OECD) nations, share common objectives for experimenting and assessing e-government at the national, sectoral, ministry/agency and project levels.

These objectives are:

### ***1.1 National level***

To achieve public sector reform of the objectives the contribution of e-government should be evaluated. For re-alignment of initiatives with an over-arching plan if necessary, allowing and monitoring overall compliance of initiatives with national strategy. To strengthen the coordination of initiatives at the national level, a whole government approach to e-government should be ensured.

### ***1.2 Project level***

The risks of project implementation should be assessed and monitor the costs and benefits. The efficiency and effectiveness of implementing projects should be measured. Identifying good practices and promoting knowledge sharing among institutions. Data/information to decision makers should be provided. Justifying investments and determining resource to allocate for new projects. Therefore, the detailed table below summarizes main objectives for e-government highlighted.

The purpose of this survey is to identify the main factors that influence citizen adopt e-government services. Therefore, the researcher has organized the document to review relevant prior literature to examine the influence of social factor on subjective norm in order to evaluate the intention to use e-government services.

The key factors for adoption has been discussed by reviewing the most common, moreover the literature of IT has developed theoretical models in which is fit to experimental studies, tending the fundamental issues of trust in the adoption of technology and covering the literature on citizen adoption of e-government services. In addition to that, the methodology section will discuss; the design, procedure, and sample characteristics whose measures are presented and validated. Finally, the results are presented, and implications of the results are discussed in terms of adoption of e-government.



**Table 1.**

Main objectives of e-government in the following countries

<i>Countries</i>	<i>Assessment of objectives at the national or sectoral level</i>	<i>Assessment of objectives at the ministry/agency or project level</i>
<i>Algeria</i>	Strengthening the administration Administrative procedures should be simplified with reforming public sector Adopting a unified, common plan for all ministerial	
<i>Egypt</i>	Egypt's ranking has to be increased for the global economic competitiveness indicator And also measuring and supporting ICT use in the government administration Civil servants' performance should be improved with IT capacity. The effect of the technological readiness indicators on Egypt's economic should be measured with investment environment	To undertake reforms, the capacity of each public institution has to be monitored and assessed. Creating new opportunities for e-government projects Supporting government Institutions in planning projects and directing investments by presenting the development and improvement of work cycles through better use of technology Accurate information to decision makers for elaboration of accurate and efficient plans has to be provided
<i>Morocco</i>	The impact of adopted projects on the level of efficiency has to be measured and productivity of the administration e-government project implementation has to be followed up and evaluated	
<i>Tunisia</i>	To measure the extent to which e-government contribute to the achievement of development objectives	To assess the achievement of programmes/ project objectives

Source: OECD (2007), Country questionnaires

## 2. Literature Review

Although e-government is relatively a new domain and nowadays it becomes a universal issue. The literature demonstrates that there is several definitions for e-government. Different views about the concept reflect the various interests by governments, organizations and scientists. According to Carter and Belanger, they view three e-government figures that can be related to citizens, employees, government agencies and businesses (Alruwaie et al., 2012; Anastasopoulou & Kokolakis, 2013; Carter & Belanger, 2004):

*“The use of information technology, especially telecommunications, to enable and improve the efficiency with which government services and information are provided to citizens, employees, businesses and government agencies”.*

In addition, the use of information technology, and communication is an essential part in e-government. Others definition of e- government are expressed in a distinctive structured approach, for example, Leitold et al. (Leitold, Hollosi, & Posch, 2002) is defined E-government as:

*“The interaction between state authorities and society with the help of information and communication technology (ICT) promises to improve the services for the citizen and at the same time tremendously reduces retention periods and costs, such as, by avoiding costly media transitions”.*

The restriction of e-government is at only two basic features of interaction, which are state authorities and society. Furthermore, others highlighted the benefits that can be derived from the adoption of e-government, which will save the citizens' time and increasing the dynamic of economic, when operating from conventional to online services. Several studies have included the technology operation, especially web applications and accelerating the democratic process by application of e-government as it is defined By Fang (Fang, 2002b) who explains the circumstance as:

*“A way for governments to use the most innovative information and communication technologies, particularly web-based Internet applications, to provide citizens and businesses with more convenient access to government information and services, to improve the quality of the services and to provide greater opportunities to participate in democratic institutions and processes”.*

Fang, (2002b) explained that e-government has a different feature. Thus, he focuses on using web-based Internet applications to provide high quality services and giving access to new opportunities for the public in order to increase the participation of citizen with decision makers.

For the purposes of this research, the author adopts Fang, (2002a) definition, while it has the following characteristics. (1) Using information and communication technology present a broader view in the definition rather than only the Internet. (2) The e-government services has three major beneficiaries, as it is not a project only for citizens, employees or businesses but for all. (3) It develops the definition’s scope to include citizen’s participation in decision-making.

Consequently, G2C government emphasizes on how to provide advantages to the residential Citizens. The e-government services allow an access to its electronic forms by utilizing a friendly interface and from a one-stop point. According to Bose, (2004) who states that, direct operation of in an easy way to citizens can gain what they is required, in outstanding quality *form*, from one single contact point. At G2E, government support cooperation among employees and government agencies to enhance their working environment, which leads to a more productive workforce.

Meanwhile, Jaeger (2003) adds that G2G enhances government transitions and ensures that tasks are completed consistently. In addition, it speeds and facilitates networked information among different governmental departments. E-Government permits information to flow easily and smoothly, reducing employee time wastage and cost (Jaeger, 2003). Furthermore, by using G2B, however, for eliminating needless tasks that are not required from various government agencies, the government can enhance the business sector and increase the communication technology environment in term of the quality for better e-business. Moreover, some scholar like (McClure2001) has classified e-government into four dimensions: government-to-citizen

(G2C), government-to-employee (G2E), government-to-government (G2G) and government-to-business (G2B), (Doong & Wang, 2014; Hiller & Bélanger, 2001).

Several phases are required in order to establish e-government with full-coordinated services. Government can demonstrate different levels of cooperation with the public. Even though there are different stages mentioned by other scholars like Layne and Lee (2001) who has identified four distinct stages of e-government direction, which are different from the previous ones in some respects. However, this study will focus on some studies who points toward four stages, governments should assume in order to implement full-interactive online services. These phases are posting information, interaction, exchange and integration, which refer to Gartner's Groups, (Al-Adawi, Yousafzai, & Pallister, 2005; Rehman, Kamal, & Esichaikul, 2012).

In the stage of posting information, data are placed on websites by government offices, such as, contact information, regulations and announcements. The information in these sites can be accessed and viewed or downloaded by the public. At this level, the communication exists only in one direction from the government side. In the next stage, the interaction to the public provides the government applications to move forward towards using on-line services. However, this level has two dimensions of communication, that is, from the government side and the other one from the public. As well as, many opportunities are provided by these Web sites to individuals to the fill requests for information and to get responses to the requests later in emails or by letter (Hiller and Belanger, 2001; Qutaishat, 2013).

In the transaction stage, government provides services online through their websites. Communications is described in two significant directions, responses are done out in parallel with citizens' solicitations. Taxes and fees are paid, and forms are filled, these are examples of these transactions (Hiller and Belanger, 2001). In addition to this, the fourth stage is the integration in the Gartner Model. It permits to the public to access to different services and completing e-transactions from one stop point, no matter what the transactions are associated with different services or departments. Without concern for the beneficiaries of these services, all the transactions are integrated to different agencies. Moreover, Hiller

and Belanger (2001) claimed a participation in the fifth phase, where e-government offers a voting system. According to some authors, in order to propose a separate stage for participation, the information security and citizens' privacy should be protected. Lastly, it appears that there is a strong relationship between the degree of public interaction and these stages development of e-government. However, this interaction can be increased at high level and decreased until it dissipates at the base of the e-government model (Alateyah, Crowder, & Wills, 2014).

**Table 2.**

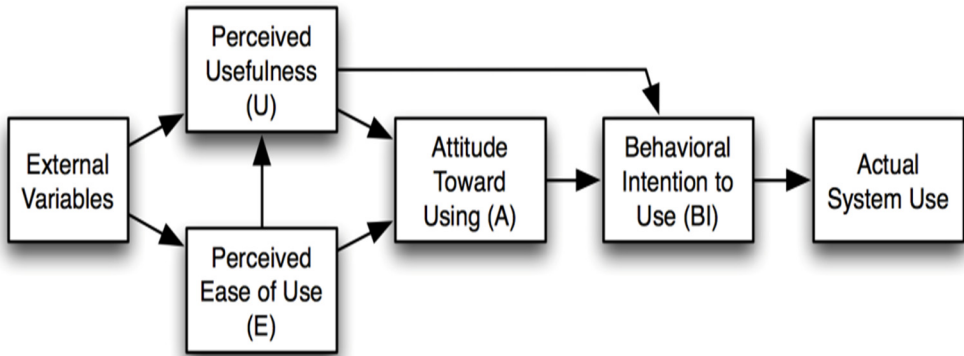
Summary of distinctive stages of E-government development

<b>Stages</b>	<b>Objectives and examples</b>	<b>Level of Interaction</b>	<b>Reference</b>
Posting information	Posting online information such as contacts information and announcements	No interaction	
	Providing a late response to participants when they submit a request such as email, or a filling form information request.	Simple interaction	Gartner Group's, Source: Al-Adawi et al. (2005)
Interaction	Availability of online services such as paying	Advance interaction	
Transaction	Fees, taxes and renew driver license.	Complete interaction between different government agencies and services.	
Integration	Providing services from one stop point.		
Participation	Offers a voting system to ensure high security and privacy	Interaction dedicated to democracy	Hiller and Belanger (2001)

Source: (Alateyah, Crowder, & Wills, 2014)

E-government services are provided using information and communication technologies. Consequently, theories on information technology adoption are relevant to understand the adoption of e-government. Generally, these theories take one of three possible approaches: a diffusion approach, an adoption approach or a domestication approach.

According to Davis, Bagozzi, & Warshaw, (1989) who proposed the TAM model which is one of the most well know models utilized among scientists to analyze peoples' attitudes towards technology in 1986, that is adapted from the Theory of Reasoned Action (TRA) as, it is see in (figure 1):



**Figure 1.** Theory Accepted Model

Source: The Technology Acceptance Model (Fred D. Davis, 2016).

TRA posits that the key prediction of actual behavior is shaped by behavioral intention, which is defined by subjective norm and attitude towards that behavior. Although, attitude is described as the degree to which an individual makes a positive or negative assessment about certain behavior and the subjective norm that denotes to the social impact to perform or not perform the behavior (Ajzen, 1991; Danila & Abdullah, 2014; Lawson-Body, Willoughby, Illia, & Lee, 2014).

Moreover, in the theory of planned behavior, according to study by George (2004) focusing internet purchases, subjective norm are based on an individual's normative structure, i.e. his or her beliefs about what important others think about the behavior in question. This factor directly influences his or her subjective norms or perceptions of the social pressure to comply with expectations about engaging in the behavior. Subjective norms should in turn influence the individual's proclivity to engage in the behavior. If social expectations are that people should

engage is the behavior in question, then the individual should be more likely to do so. Conversely, if social expectations are that people should not engage in the behavior, then the individual should be less likely to do so. In this case, if purchasing over the internet is seen as socially desirable behavior, based on what important others think about it, then the individual is more likely to make Internet purchases (George, 2004).

Additionally, the literature review shows that, numerous studies have inquired into technology adoption based on TAM, DOI/PCI and TPB/DTPB constructs in which few determinants: PEOU and PU of TAM model is outlined above in the figure 01. However, vigorous model of (Gefen, Karahanna, & Straub, 2003),viewed TAM in their studies, as a model of quality, which, has been tested and accepted in several experimental studies. As it is easier to apply with only twelve items so simplifying the data collection process.

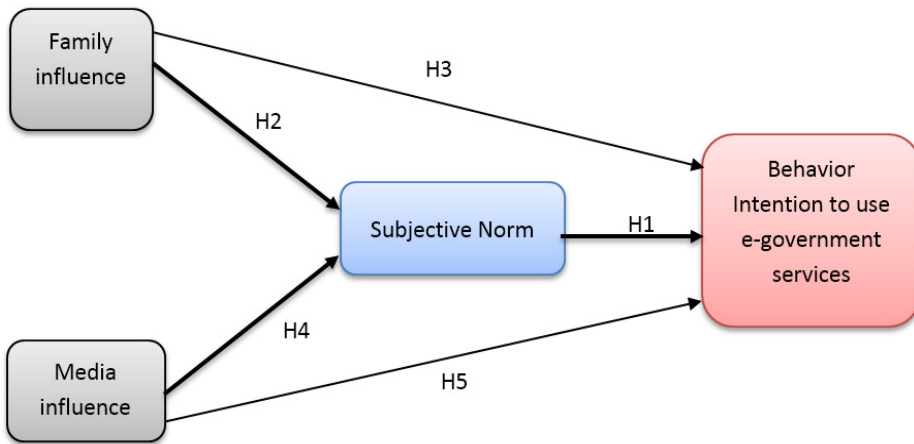
The main purpose of this investigation, however, is to deepen our understanding of the determinants of electronic government services.

The main benefits of this study can be summarized as follows:

(1) Decomposed theory planned behavior (DTPB) captures the technology characteristics that are derived from the theory-accepted model (TAM) and diffusion of innovation (DOI) which present the attitude dimension. Hence, these theories' aspects are embedded theoretically in DTPB.

(2) In the context of Algerian families, the social dimension in DTPB is an essential unit in its society, similarly, the dynamic of social life is very strong, and older people are highly respected. Which means that, the factor of social dimension in the DTPB is important. Therefore, this will deepen and develop our understanding on the circumstance of intention to use e-government.

The research model of this study is supported by TPB, and focusing on the subjective norm, as it aims to evaluate the effect of the social influence and encourage the adoption of e-government services, which needs to validate its appropriateness for the adoption. Thus, it illustrates two direct hypothesis and three indirect hypotheses as follow:



**Figure 2.** Research model with hypothesis

Source: conceptual framework

**Subjective Norms** Empirical evidence of the relationship between subjective norms and citizens' intention to use e-government services are found in many studies (Hung et al., 2006; Al Awadi and Morris, 2009). Lau (2004) studied the adoption of e-government services in Hong Kong and found that the opinions held by family members have a significant influence on an individual's use of e-government services. Individuals within the society would influence others to use e-services to increase acceptance (Loch et al., 2003). Hung et al. (2006) found that both peers/friends/colleagues and the media have significant effects on subjective norms. McGrath et al. (2011) claim that online social networking in e-participation allow the rapid mobilization of citizens and the transfer of immediate information.

Individual behavior in a collectivist culture, such as that of Algeria, is affected by social norms received from people who are considered important to the individual. For-example, some studies have shown that, Algerian culture is socially dynamic in the lives of its citizens and engenders strong relationships among family relatives. Therefore, family, and media influence is important referents of subjective norms and the intention to engage in e-participation. (Alharbi & Hawryszkiewicz, 2015). (Taylor & Todd,



1995) indicated that a significant effect on individuals to utilize a computing resource center is peers and superiors' influence. Also (Lee & Turban, 2001) declared there are two dimension of significant influences that affect consumers' decisions to shop online that are: the interpersonal influences, i.e. Friends, family and external influences.

Based on the literature, the following hypotheses have been developed to identify the relationship between these variables, as it was mentioned before two direct hypotheses (H3 and H5) the three indirect hypotheses (H2, H4 and mediating H1):

H1: subjective norm is related significantly and positively to behavior intention.

H2: Family influence has a significant and positive relationship upon the subjective norm.

H3: Family influence is related significantly and positively to behavior intention.

H4: Media influence has a significant and positive relationship upon the subjective norm.

H5: Media influence is related significantly and positively to behavior intention.

### **3. Methodology**

According to Creswell's, (2014), who determined three available directions of research approaches, particularly, quantitative, qualitative and mixed. Moreover, Bryman (2004) identified that quantitative research has two dominant characteristics. First, is a deductive approach that is related to theory and research, which provides funding after testing the theory. Second, it demonstrates the practices of positivism and presumes an external perspective with real goals.

Subsequently, to test the model in the most practical way possible, the study was directed through a survey of a broad diversity of citizens at a community event. Items were adapted from past studies.

Subjective norm refers to the social influence to perform or not to perform the behavior (Ajzen, 1991; Danila & Abdullah, 2014; Lawson-Body et al., 2014). For this study, it refers to citizens' perceptions of the person's interest, or group to use e-government services. It suggests that an important influence on individual's behavior is through social pressure of those people who are considered important. Hence; the literature identifies a significant relationship between subjective norm and behavioral intention to use e-government.

### **3.1 Research Instrument**

A questionnaire is utilizing a five-point scale was directed to gather data on Algerian citizen to investigate their intention to use e-government services for experimental analysis. Pavlou & Gefen, (2004) developed items based on the defined concept after determining each domain for each appropriate factor of the study. Then using validated items from past studies for operationalizing the chosen constructs. For instance, in the following table a list of adapted items for subject norm variables.

**Table 3.**

Subjective Norm variables with associated Items

<b>Factor</b>	<b>Items</b>	<b>Adapted From</b>
<b>Behavior Intention (BI)</b>	I intend to use e-government services. I would use the government services provided over the Internet. E-government services are something that I would do. I would not hesitate to use e-government services.	Belanger and Carter (2005).
<b>Subjective Norm (SN)</b>	People who influence my behavior think that I should use e- government services. People important to me think that I should use e-government services.	Bhattacharjee (2000), Lin (2007), and Taylor and Todd (1995a).

<b>Factor</b>	<b>Items</b>	<b>Adapted From</b>
	People whose opinions I value would prefer that I use e- government services. People who influence my decisions think that I should use e- government services.	
<b>Family Influence (FINF)</b>	My family thinks that I should use e-government services. My family thinks that using e-government services is a good idea My family influenced me to try out e-government services.	Bhattacharjee (2000), Lin (2007), and Taylor and Todd (1995a).
<b>Media Influence (MINF)</b>	I read/saw news reports that using e-government was a good way of doing government transactions. The popular press depicted a positive sentiment for using e- government services. Mass media reports influenced me to try out e-government services.	Bhattacharjee (2000) and Lin (2007).

Source: authors' compilation

### ***3.2 Population***

In this current study, main target population is a citizen of Algeria. The sample size is 300 emails send, and the total respondents is 100 were returned, this following a reminder mailing two weeks after the first with response rate 30 percent. The data were analyzed by using PLS.

To verify the significant influence of hypotheses, several research studies dealt with multiple regression analysis according (Hsieh, 2015; Wu & Chen, 2005). Consequently, the total effect on the dependent variable highlighted the feature of regression technique analysis. additionally, the R - square can calculate the percentage of variance in the dependent variable for explaining the effect on the outcome, as according to these

scholars (A. Field, 2013; A. Field, 2000) the R - square is the amount of the total sum of squares of all correlations between independent variables and a dependent variable. However, to provide the overall fit of the model PLS, covariance has the capability for generating a set of fit indices. In which it is specified for its ability to compare between the proposed model and the best possible fitting model. Thus, for testing theories according to Davcik (Davcik, 2014; Gefen, Straub, & Boudreau, 2000) the covariance statistical data analysis is more relevant for confirmatory research.

#### **4. Findings**

Contrary to prediction, results reveal that, subjective norm concluded to be not significant in order to use e-government services. In previous technology adoption studies, subjective norm was identified to be a significant for the behavioral intention factors (Ajzen, 1991; Danila & Abdullah, 2014; George, 2004; Lawson-Body et al., 2014; Lee & Kozar, 2005), Subjective norm reflects citizens' perceptions of the desire of people referent group to adopt e-government services.

According to the study's findings, two explanations have been highlighted that; first, most of the sample respondents declared that they were using the Internet for more than three years. Furthermore, the vast majority of them also mentioned that they have engaged largely in using e-government services in the past. Whereas, the participants declared that they have the knowledge and experience for using e-government services without influence from other important people (Ajzen, 1991; Danila & Abdullah, 2014; Lawson-Body et al., 2014; Venkatesh, Morris, Davis, & Davis, 2003; Ya-Yueh & Fang, 2004), who claimed that, When the usage of technology is not mandatory, subjective norm is determined to be not significant in slow environments, such as, in this investigation, which offers an alternative explanation.

Meanwhile, this implies that, the usage of technology is compulsory, which seems to be more dependent on others' opinions, such as, colleagues or managers. Overall, this study conducted in a voluntary setting the above hypothesis remained unsupported.

#### 4.1. Descriptive analysis

The preceding section highlighted the framework and guidelines for the empirical work. It generated the research hypotheses and introduced the research model. The developed research instrument and the techniques that had been employed in the translation process were then presented.

#### 4.2. Measurement Model Analysis

To settle the measurement model before proceeding to the structural model analysis, Confirmatory factor analysis (CFA) is considered an essential procedure. As, this process of clearing and establishing the model, is an important in construct validity for successful structural model analysis. In this phase, in order to evaluate the model's fit the CFA has to be run for the whole model. Hence, the model included 14 items describing two latent variables: family influence, media influence. Therefore, the study first concentrated on the investigation of the factor loading, which identify that some scales showed strong loading into latent variables (Saccenti, Hoefsloot, Smilde, Westerhuis, & Hendriks, 2014; Hair, Black, Babin, Anderson, & Tatham, 2006), suggest that items with a loading of less than 0.50 should be discarded. The results exceeded their acceptable levels being above 0.90 for the most of the items.

**Table 4.**

Cross loading				
Items	Behavior Intention	Family Influence	Media Influence	Subjective Norm
BI1	<b>0,966492</b>	0,601386	0,528244	0,696596
BI2	<b>0,955587</b>	0,56619	0,551245	0,677175
BI3	<b>0,964281</b>	0,539934	0,44553	0,668585
BI4	<b>0,9127</b>	0,525021	0,503165	0,741562
FINF1	0,537121	<b>0,921137</b>	0,596055	0,63251
FINF2	0,657533	<b>0,889013</b>	0,683048	0,626024
FINF3	0,383248	<b>0,885055</b>	0,486416	0,597943

Items	Behavior Intention	Family Influence	Media Influence	Subjective Norm
MINF1	0,539938	0,591546	<b>0,88176</b>	0,55142
MINF2	0,508727	0,548574	<b>0,817268</b>	0,533674
MINF3	0,272752	0,514834	<b>0,829549</b>	0,44615
SN1	0,569049	0,562993	0,468673	<b>0,871631</b>
SN2	0,67549	0,671546	0,599364	<b>0,900297</b>
SN3	0,722554	0,609751	0,570253	<b>0,912641</b>
SN4	0,676296	0,63976	0,554437	<b>0,930136</b>

Source: authors' calculation

### 4.3. Convergent validity

Three approaches are utilized to examine the convergent validity: firstly, factor loading is examined for computing the average variance extracted, then construct reliability is calculated for the first indicator, and lastly for evaluating items loading on their respective factors. Convergent validity should be examined in the measurement model. As well as the accepted cut-off value for item loading should be equal or greater than 0.50 or above 0.70 for an ideal loading (Hair, Black, Babin, Anderson & Tatham, 2010). Table 4 highlights that all items loaded are expected with values varying from 0.81 to 0.96 in their proposed constructs.

Convergent validity is shown when the AVE is greater than 0.8 indicating that item is holding more variance than error (Hair et al., 2006). Table (4) illustrates that all items have an AVE greater than the suggested value of 0.8 as an indication of good convergence.

Overall, the composite reliability was assessing convergent validity. According to the result of table (5) all the constructs are above the suggested value 0.70 which is highlighted by some scholars (Saccetti et al., 2014; Hair *et al.* (2006) that the convergent validity for all items are supported.

### 4.3. Discriminant Validity

According to Fornel (Lum, 1981) approach for evaluating discriminant validity, it should compare the average variance extracted (AVE) to the given construct with squared correlations between constructs (Segars, 1997). This procedure concluded that items within a latent variable gain more variance than any other item of other latent variables in the model (Ajzen, 2012; Segars, 1998). The observation of the average variance extracted for construct compatibility (0.50) was above the squared correlation of compatibility and family influence (0.9) indicating the existence of strong discriminant validity.

The observations of Table (6) identifies that all the construct of AVE for each individual is above constructs squared correlation which gives a strong support for discriminant validity.

**Table 5.**

Convergent validity

Varaibles	Items	Loading	Cronbachs Alpha	Composite reliability	AVE
<b>Behavior Intention</b>	BI1	0,966	0,964	0,974	0,903
	BI2	0,956			
	BI3	0,964			
	BI4	0,913			
<b>Family Influence</b>	FINF1	0,921	0,881	0,926	0,807
	FINF2	0,889			
	FINF3	0,885			
<b>Media Influence</b>	MINF1	0,882	0,797	0,881	0,711
	MINF2	0,817			
	MINF3	0,830			
<b>Subjective Norm</b>	SN1	0,872	0,925	0,947	0,817
	SN2	0,900			
	SN3	0,913			
	SN4	0,930			

Source: authors' calculation

Table 6.

Discriminant validity				
Variables	Behavior Intention	Family Influence	Media Influence	Subjective norm
<b>Behavior Intention</b>	0,902528			
<b>Family Influence</b>	0,58771	0,807387		
<b>Media Influence</b>	0,534568	0,656602	0,711193	
<b>Subjective Norm</b>	0,734603	0,688996	0,609622	0,817085

Source: authors' calculation

#### 4.3. Goodness of fit

Goodness of fit (GoF) evaluates the whole fit of the model. However, GoF is the geometric mean of the **Average Variance Extracted (AVE)** (outer measurement model), and the **average R<sup>2</sup>** of endogenous latent variables. GoF represents an index for affirming the PLS model globally using the performance of both measurements as well as structural models. The closer the (GoF) to 1 the better the fit of the model under consideration.

Table 7.

Goodness of fit		
Constructs	R Square	AVE
Behavior Intention	0,539641	0,902528
Family Influence		0,807387
Media Influence		0,711193
Subjective Norm	0,51817	0,817085
Average	0,529	0,810
GOF		65%
	GOF Small = 0.1	
GOF=SQRT (R-Square * AVE)	GOF Medium = 0.25	
	GOF Large = 0.36	

Source: authors' calculation



At the time, when the fit model was established and the measurement model affirmed, the research can be analyzed the structural model and present the results of the hypotheses in the following section.

#### 4.4 Structural Model Analysis

Once establishing the measurement model, then testing and affirming the structural model. The overall, for proceeding to fit the structural model is utilized the employed fit indices as described in table (4). The investigation then focus the dependence relationships to hypothesize model.

Additionally, The results conclude a good understanding of the forces that influence citizens' intentions to use e-government services, which is coherent with prior research results (Hernandez & Mazzon, 2007).

**Table 8.**

Path Coefficients (Mean, STDEV, Tvalues)

---

Variables	Original Sample (O)	Standard Error (STERR)	T-Statistics ( O/STERR )	P-value	Decision
Family Influence -> Subjective Norm	0,508	0,128	3,962	0%	Supported
Media Influence -> Subjective Norm	0,276	0,144	1,915	3%	not Supported
Subjective Norm -> Behavior Intention	0,735	0,089	8,223	0%	Supported

---

Source: authors' calculation

\*\*\*supported at p value <0.001.

\*\* supported at p value <0.01

\* supported at p value 0<.05

The results show that two significant predictors explain this variance in intention to use e-government, however, direct relationship between media and subjective norm are not significant with 3%, therefore it's not supported. The other paths (family influence and subjective norm) are found to be supported.

Advanced statistical approach, PLS is used in this study to validate the research model. Likewise, the study first presented the fundamental assumptions of PLS in which the results described that all the constructs fulfilled the criteria of reliability, convergent and discriminant validity. On the other hand, the results of structural model determined that to provide a well-fit model to the data all the fit measures has to fulfill the required values.

The next step is determining the significant paths and the supported hypotheses to validate the model. The paths estimations test described two designed casual relationships, one-path relationships were determined to be significant while the other paths were not significant. After accomplishing the statistical analysis of data and concluding the research findings, this research will illustrate the key elements that affect citizen to use e- government services. As mentioned earlier, an investigation of these facts will hopefully support the understanding of the antecedents of e-government acceptance. At the end, the study provides and discusses to validate intention to use of e-government model with partial least square. As the main purpose of this research is to identify the social aspects that influence citizens' of using e-government services.

Similarly, the findings identify three variables: family and media influence and subjective norm have a significant impact directly and indirectly on citizen intention to use e-government services.

This findings illustrates a significant relationship between family influence and subjective norms as t-value =3.3 with P-value = 0.00, and  $p < 0.001$ ) that is supported, whereas the relationship of media influence and subjective Norm in hypothesis (t =0.4 and P = 0.5 more than 0.01) which is not supported.

**Table 9.**

Testing mediator between hypotheses

Hypotheses	Paths	Path Coefficients	a * b	St.Dev (a*b)	t-value = a*b/St.Dev (a*b)	p-value	Result
Family Influence - >Subjective Norm	a1*b1	4,114	0,381	0,115	3,306	0,000	Supported
Media Influence - > Subjective Norm	a2*b1	2,021	0,195	0,423	0,460	0,5	not Supported

Source: authors' calculation

## 5. Discussion

The results reveal that subjective norm was identified to have significant influence on behavioral intention of using e-government services. Moreover, Subjective norm reflects citizens' perceptions of the desire of his referent group to adopt e-government services.

Additionally, the family influence has a significant relationship to the subjective norm, whereas the media influence revealed to be not significant relationship with subjective norm. Consequently, the influence of the family on the participants is more influential than the media, and the People seem to be more dependent on their family.

The social influence variable has a significant relationship with the intention of using government services, as the Algerian culture socially active in the lives of its citizens and engenders strong relationships among family members, as well as the family have a strong impact on subjective norm. They found that just family and media influence have no significant relationship with the intention the using of e-government.

Finally, this study illustrated that media influence is a weak determinant comparing to social influence on subjective norm, furthermore subjective norm has a significant impact on the intention to use e-government (H1), particularly in its early stage.

**Table 10.**

## Summary of hypothesis result

<b>HY/ N</b>	<b>Hypothesis</b>	<b>Decision</b>
<i>H1</i>	<i>Subjective norm has a positive relationship with citizen intention to use e-government services</i>	Significant
<i>H2</i>	<i>Family influence has a significant and positive relationship upon the subjective norm</i>	Significant
<i>H3</i>	<i>Family's influence has a positive relationship with subjective norm</i>	Significant
<i>H4</i>	<i>Media influence has a significant and positive relationship upon the subjective norm.</i>	Not significant
<i>H5</i>	<i>Media influence is related significantly and positively to behavior intention</i>	Significant

Source: authors' calculation

## 6. Conclusion

Establishment of an effective e-government depends mostly on several, of different components for development of e-government in Algeria such as;

- (a) Absence of a reliable and secure, to widen the accessibility and interconnectability between the parties with high-speed network, which will result on the availability of high transmission sufficient for the requirements of e-government, exchange services.
- (b) Limitation of regulatory comprehension of the framework that supports and controls the adoption of e-government in the country will lead to insecurity of the fundamental rights of all parties,
- (c) Lack of talented professionals,
- (d) Limited use of credit cards due to the lack of existing culture and awareness of the usage of credit cards, as well as the lack of trust in electronic means, coupled with an insecure financial platform, and

- (e) Absence and inadequacy in the infrastructure of logistics, which is an importance factor in ICT and e-commerce for the economic development, but this reactivity for the implementation, took place differently.

An important progress in the area of e-government and e-commerce for the most countries in the North of Africa (such as Egypt, Morocco and Tunisia) because it is a necessary component of their ICT strategies.

Whereas in Algeria, it is consigned to a secondary stage depends on the results achieved by the ICT strategies. This study gives understanding for a real implementation of e-government countries in Africa like Algeria as by understanding the reasons behind the absence of e-government in such country, appropriate procedures and incentive system can be better provided to encourage its adoption. Finally, the e-government development in Algeria is remarkably slow, but is running after to achieve it in the coming years.

Although, the trust factor is important, as further research has revealed the not significant effect of trust on the Internet on the intention to use of e-government. Scientists can consider the indirect effect of the trust in government and Internet factors on the intention to use of e-government by including the trust factor as a mediating factor.

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## Appendix (A) Questionnaires

1=strongly disagree. 5=strongly agree

<b>Family influence</b>	My family thinks that I should use e-government services.		2	3	4	5
	My family thinks that using e-government services is a good idea.		2	3	4	5
	My family influenced me to try out e-government services.		2	3	4	5
<b>Media influence</b>	I read/saw news reports that using e-government was a good way of doing government transactions.		2	3	4	5
	The popular press depicted a positive sentiment for using e- government services.		2	3	4	5
	Mass media reports influenced me to try out e-government services.		2	3	4	5
<b>Behavior intention</b>	I intend to use e-government services.		2	3	4	5
	I would use the government services provided over the Internet.		2	3	4	5
	E-government services are something that I would do.		2	3	4	5
	I would not hesitate to use e-government services.		2	3	4	5
<b>Subjective norm</b>	People who influence my behavior think that I should use e- government services.		2	3	4	5
	People important to me think that I should use e-government services.		2	3	4	5
	People whose opinions I value would prefer that I use e-government services.		2	3	4	5
	People who influence my decisions think that I should use e- government services.		2	3	4	5

A) How long have you been using e-Government services?  
Please tick the appropriate box

Never       Less than three       Less than six months

Less than 12 months       More than one year

B) How long have you been using Internet?

Never.       Less than 12 months       One to less than 3 years

3-5 years       More than 5 years

Please answer the following questions about yourself:

Gender:  Male       Female

Any comments please:

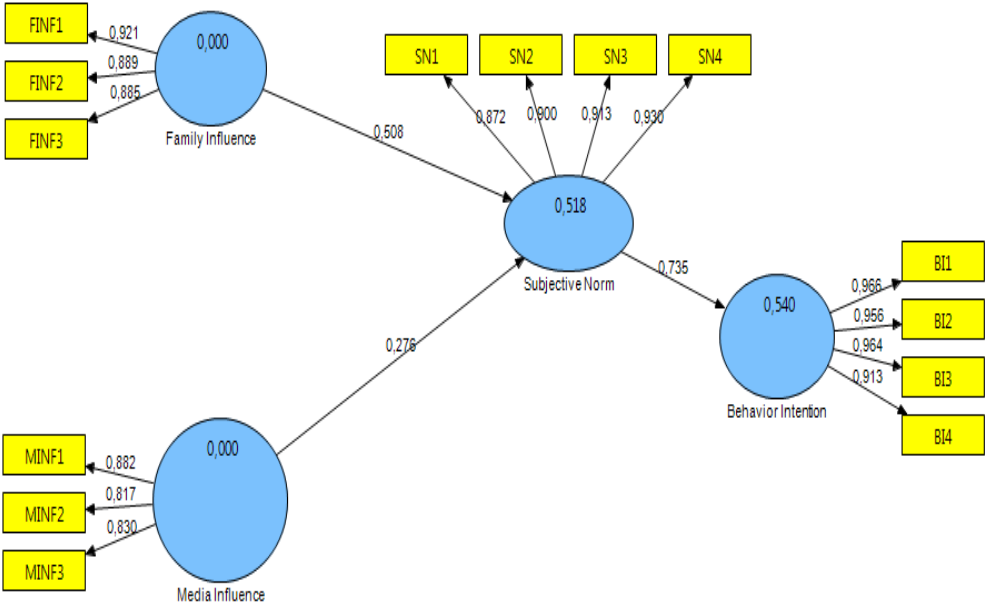
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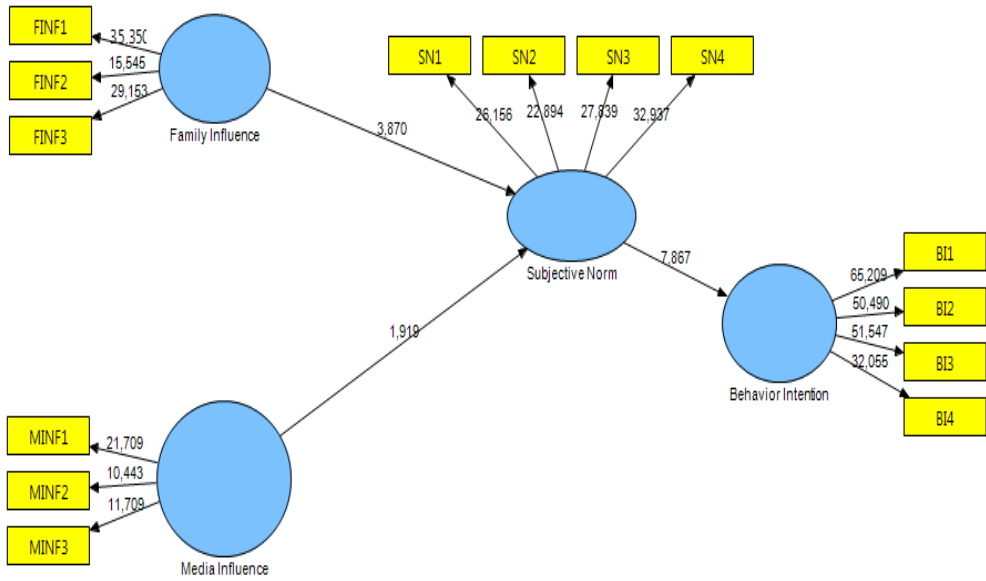
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Thanks for your time

### Appendix (B) Measurement Model



## Appendix (C) Construct model



## **SOCIAL DETERMINANTS OF VOLUNTARY CARBON INFORMATION DISCLOSURE IN THE REAL ESTATE SECTOR OF MALAYSIA**

**KALU JOSEPH UFERE<sup>1</sup>, ALIAGHA GODWIN UCHE<sup>2</sup>,  
BUANG BIN ALIAS<sup>3</sup>**

**ABSTRACT.** The knowledge is power is a quote effective in the public space, where the level of information and awareness people have determines the level of power they exercise. The aim of this study is to investigate the influence social factors has on corporate voluntary carbon disclosure in the property sector of a developing country. The data was collected from 2013 annual reports of 126 listed companies, comprising sixteen (16) property investment companies, seventy six (76) property companies and thirty four (34) construction companies in Malaysia. The analysis was conducted with Partial Least Square-Structural Equation Modeling, with the bootstrap used for significance testing. The result shows that social factor has a significant influence in determining voluntary carbon disclosure. It was observed in the result that company visibility has a greater influence in motivating disclosure. The implication of the outcome is that, improvement in the level of knowledge and awareness of the public, on the need for corporate participation in climate change mitigation and carbon reduction. The more awareness, the more demand by stakeholders on companies; the more companies will be motivated to disclose carbon information in their annual report.

**Keywords:** social factor, legitimacy, carbon disclosure, real estate, Malaysia

**JEL Classification:** R52

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## 1. Introduction

There is a scientifically established connection between climate change and carbon emission. Climate change with its effect on the environment has become a great challenge to life and business; hence corporations are becoming more responsible on their carbon footprint. This is due to the prospective risks associated with effect of climate change, which are through physical impact, or changes in policies. Other risk factors include, variations in the demand patterns, changes in business terms, and insurance policies, so businesses are acknowledging the effect of global warning to the business (Busch & Hoffmann, 2007). The global quest to manage the greenhouse gases, especially carbon emission led to the adoption of the Kyoto protocol. With stakeholders demanding the reporting of carbon emission information, to enable them in investment assessment and decision making (King, 2009). In developing countries such disclosure is not mandatory. Therefore, it is imperative to understand the social factor determinants which motivate voluntary carbon information disclosure among companies in the property sector. The study attempts to identify the major social construct that motivate the corporate climate change information disclosure in company's annual reports. Current literature offer legitimacy theory as the motivation social factor influence on voluntary disclosure of environmental information.

There are many studies on environmental disclosure, few focused on carbon information reporting, while some studies investigated motivating factors in developed countries, a few studied determinant for disclosure in companies in developing countries. Luo, Tang, and Lan (2013) in a study of carbon disclosure between developed and developing countries, argued that the propensity to disclose varies between developing countries and developed, suggesting a shortage of resource as one factor that introduces variation in the willingness and capacity to disclose in developed

and developing nation. The study looks at variant effect of economic factor on propensity to make voluntary carbon disclosure; it did not look at the effect of social factor proxies on carbon disclosure. Similarly, another study on the influence of economic, regulatory, social and financial market factors on incentive of Global 500 companies, to voluntarily disclose carbon information in Carbon Disclosure Project in 2009; Luo, Lan, and Tang (2012) the study maintained that firms undertake climate change activities and disclosure in responds to social pressure, the study used data from CDP survey and was limited to global 500 companies. Likewise, (Dwyer et al., 2009) investigating the different factors behind the disclosure of corporate information on issues related to greenhouse gas emissions and climate change world-wide, using content analysis and a multiple linear regression dependency model. The result shows a direct relationship between corporate size and the disclosure of information, while the study did not consider the possible variation in application between developed and developing countries; it established the significant positive effect between social factor constructs and corporate disclosure. Also, that company size is significantly associated with GHG disclosures was established in Musa Mangena, Jia Liu, Chithambo, and Tauringana (2014), but (Liu & Anbumozhi, 2009) claim that corporate environmental disclosure effort is significantly relative to its environmental sensitivity and its size. Therefore, this studies aims to investigate the effect of social factor determinants on carbon information disclosure in the property sector of a developing country.

## **2. Literature Review**

The effect of climate change on individuals and businesses can be seen through the rise in temperature and sea levels, also in changes in demand patterns in business. Due to the adverse consequences of climate change there is a public expectation for businesses to play an active role toward climate change mitigation for the creation of a low carbon society. This public expectation is expected to vary with the size of the companies because of its political visibility. The legitimacy theory reasons that corporations are motivated to disclose information because of social



factors so as to legitimize their existence in business with the host community and to discharge their social pact voluntarily (Cho & Patten, 2007; Clarkson, Li, Richardson, & Vasvari, 2008; Cormier, Magnan, & Van Velthoven, 2005; Mobus, 2005; Solomon & Lewis, 2002). A corporation that is not responsive to emission reduction or mitigation policies conveys the views to the society that they are not aware or does not consider the risk of global warming; or does not have the know-how to mitigate the risk of carbon emissions. The society may respond by limiting the supply of resources and patronage to such company, as a punishment measure for non-disclosing businesses. The influence of the community or the public is considered social factor pressure.

### ***2.1. Firm size***

Firm size is one of the constructs used to measure social factor in prior studies on information disclosure (Gray, Javad, Power, & Sinclair, 2001; Patten, 1992). Large-size businesses are expected to receive more attention from the society, hence disclose more carbon and environmental information, with the intension of legitimizing their company and reducing conflicts (Archel, 2003). The participation in carbon disclosure demands significant expenses in capitals and technicalities, which are related to the size of the company, the greater the size of the company the greater their capacity to undertake the expense for disclosure (Larrán Jorge & Giner, 2002). The future advantage for disclosure is also higher for large-size companies, as there is a link between expenditure on disclosure and privilege drawn from it (Freedman & Jaggi, 2005). The logic of the argument is that large companies are more motivated to disclose, than small companies, and there is a positive association between the size of a company and voluntary disclosure (Berthelot & Robert, 2011; Rankin, Windsor, & Wahyuni, 2011; Stanny, 2013). Other studies that show that size is an influence to greenhouse gas disclosure include the following Cormier et al. (2005) for German economies; Liu and Anbumozhi (2009) studied Chinese companies; and Clarkson et al. (2008) for US businesses. In a study of 120 large size firms in a country that has ratified the Kyoto Protocol and those that has not, Freedman and

Jaggi (2005) claim that carbon disclosures are related to company size. Roberts (1992) is also of the opinion that once a company start making disclosure of environmental and social issues it considers it counter-productive to stop at a time, in view of the of the negative publicity it may get from the public and its impact in relation with stakeholders. While others contend that time-honored companies have the advantage of time to create network with stakeholders, which aids its disclosure program (Alsaeed, 2006; Kang & Gray, 2011). Most of the studies mentioned have used total assets, sales and market capitalization to measure corporate size. In this work, we have used natural log of total asset in 2013, obtained from the financial information disclosed in annual reports.

## ***2.2. Company visibility***

There are companies that attract more public attention than others; this is considered to be more visible than others. The level of public visibility may be a function of media coverage that the company attracts due to the quantity or type of business the company undertakes. Firm that are more under media coverage are more visible to the public, hence attract more attention from stakeholders than others (Deegan & Carroll, 1993). Stakeholders are interested in knowing what these companies are doing, and how they can influence them. As a result, social factor influence and checks are more on visible companies than on less visible ones (Belkaoui & Karpik, 1989; Brammer & Millington, 2006; Holthausen & Leftwich, 1983). This means, visible firm are more exposed to civil and public cost as result of the level of visibility. So, the level of visibility is directly proportional to the level of disclosure a company makes, so as to reduce potential political costs (Belkaoui & Karpik, 1989).

## **3. Theoretical Framework**

The popular definition of legitimacy theory is from Suchman (1995), and refers to a general view or notion that the activities of a company are appropriate, suitable or fitting within a communally built system of rules,

tenets and opinions. Legitimacy theory describes a major resource for the existence of companies, as it denotes the level of social sustenance received from the community (Meyer & Scott, 1983). This means businesses need legitimacy to have their decisions accepted by the community so as to develop their projects and get necessary social support and supplies (Deegan, 2002). Moreover, legitimacy changes with time, so corporations need to develop a dynamic scheme for sustaining their legitimacy with the society (Suchman, 1995). The views and perception of the people determine the state of legitimacy (Breton & Côté, 2006), so information disclosure is an important tool in legitimacy plans (Bebbington, Larrinaga-González, & Moneva-Abadía, 2008; Magness, 2006). This means, company executive can use information disclosure to control the views of the public and stakeholders toward the company (Deegan, 2002). It is important that companies increase their disclosure level if they are experiencing legitimacy gap, as reported in a study of environmental information disclosure and legitimacy of corporations (Cho, Freedman, & Patten, 2012; Deegan & Rankin, 1996; Patten, 1992). So, social expectation on environmental issues including carbon emission reduction and climate change mitigation can threaten a company's legitimacy, and if such companies do not respond through information disclosure (De Villiers & Van Staden, 2006; Deegan, 2007; Newson & Deegan, 2002).

Climate change mitigation through carbon information disclosure could be a social expectation and how companies respond to this social demand will affect its legitimacy with the community (Borghei-Ghomi & Leung, 2013; Wittneben, Okereke, Banerjee, & Levy, 2012). Within the limits of legitimacy theory; information disclosure is considered an acceptable management reaction in the face of legitimacy gap (Cho et al., 2012; Dwyer et al., 2009; Reverte, 2009). In particular carbon information disclosure is a veritable means for management to show compliance to social demands with respect to climate change mitigation and to evade threat to legitimacy (Borghei-Ghomi & Leung, 2013; Luo et al., 2012). Legitimacy and stakeholder theories describe environmental information disclosure (Reverte, 2009), and they are corresponding (Gray, Kouhy, & Lavers, 1995; Milne & Patten, 2002). But as shown in Deegan (2002), legitimacy theory deals with social demands in general.

## **4. Methods**

The data used are from annual reports of the listed property sector companies in Kuala Lumpur Stock Exchange (KLSE), a sample of 2013 reports for companies selected for the study. Three industry-types selected within the sector are Property companies, Real Estate Investment companies and the Construction companies. A total of 126 annual reports were selected, comprising sixteen (16) property investment companies, seventy six (76) property companies and thirty four (34) construction companies. To measure the theoretical model the data was analyzed using Smart-PLS, which is Partial Least Square-Structural Equation Modeling (PLS-SEM) software for data analysis. Validity and reliability measures were applied. With the aim of theory development PLS-SEM assesses the path relationships (Hair, Sarstedt, Hopkins, & Kuppelwieser, 2014).

### **4.1. Measures**

Carbon disclosure was measured through a content analysis of each firm's annual reports. Clarkson et al. (2008), Freedman and Jaggi (2011), and Dwyer et al. (2009), have used content analysis in their studies to quantify information disclosure. Financial ratios were used to measure each factor social factor, institutional factor, economic factor, and financial market factor.

## **5. Results**

The PLS path model is a two-stage analysis. The initial stage involves the estimation of latent variables scores through an iterative process for each latent construct. This is the measurement model analysis. The second stage involves the exogenous and endogenous variable are imputed to an ordinary least squares regression equation (Henseler & Fassott, 2010). This is the structural model. The aim is to reduce the error in the residual variance of the endogenous variables (Hair et al., 2014). The PLS-SEM assesses the path model associations (coefficients) where the R<sup>2</sup> is maximized for the endogenous variables hence attain the prediction

requirement for theory development (Hair et al., 2014). In this study Smart PLS 2.0 has been used, it is an individual specified software developed for PLS path modeling.

**Table 1.**

## Reliability and Validity Results

<b>Factors</b>	<b>AVE</b>	<b>CR</b>	<b>Cronbachs Alpha</b>
Economic Factor	0.8317	0.9368	0.8996
Financial Market factor	0.8199	0.9316	0.8919
Institutional Factor	0.7934	0.8848	0.7397
Voluntary Carbon Disclosure	0.7944	0.9203	0.868
Social Factor	0.919	0.9578	0.9119

Source: Authors' Analysis

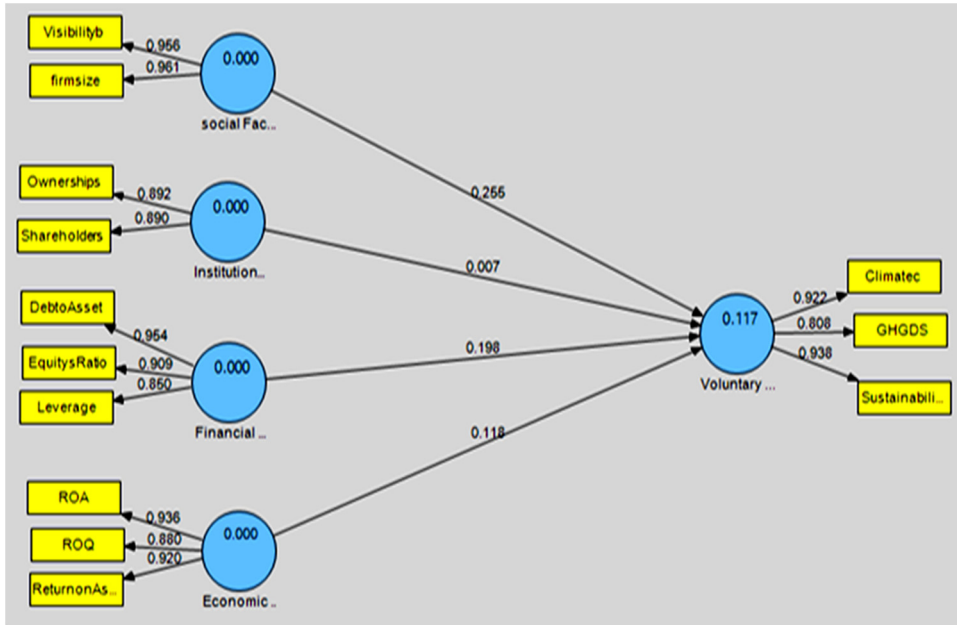
Construct reliability assessed by the composite reliability (CR) which estimates construct's internal consistency. For exploratory studies this value needs to be a minimum of 0.70 (Hair, Ringle, & Sarstedt, 2011).

Cronbach's alpha and composite reliability results were used to measure the strength and adequacy of the measurement model (Jin, Doloj, & Gao, 2007). A target of 0.70 is used for Cronbach's alpha coefficient and composite reliability to indicate the acceptable level of internal consistency. The factors in Table 1 that were found to have values above 0.70 resulting in a high degree of reliability and are proved to be sufficiently reliable for analysis.

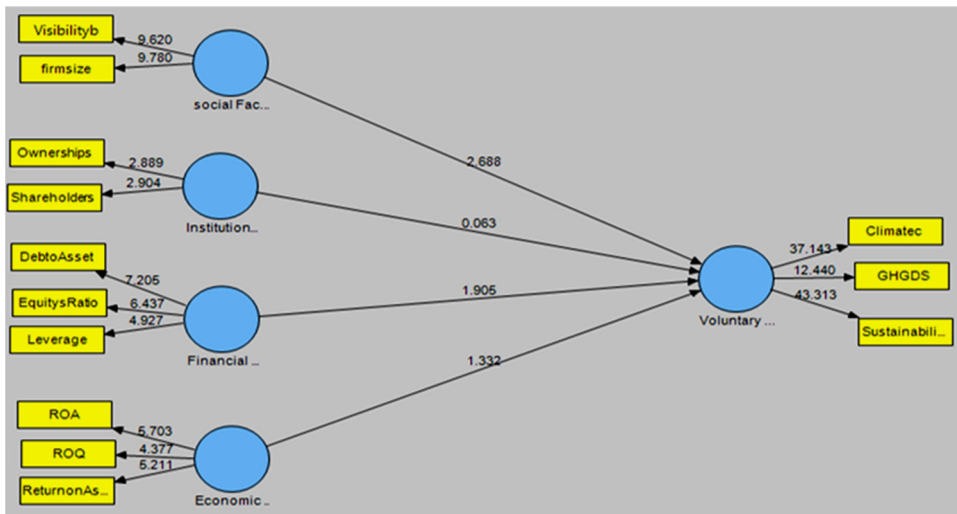
The convergent validity was measured with the average variance extracted (AVE) of latent constructs exceeds the recommended threshold value of 0.50 (Hair, 2010), and the results signifies that variances observed in the items were accounted for by the constructs. Therefore, the current data have good convergent validity.

### **5.1. Structural Model**

PLS-SEM analysis does not assume multivariate normality, and to test for significance a non-parametric test is used on path coefficients and loadings. A path coefficient bootstrapping is conducted to check for significance of each path.



**Figure 1.** Showing results of the path analysis  
(Source: Authors' Analysis)



**Figure 2.** Showing the SEM-PLS bootstrap results for significance  
(Source: Authors' Analysis)

The non-parametric bootstrapping method is used for significance test in PLS-SEM(Hair et al., 2011). A higher number to the sample size of the data set is recommended for the bootstrap, and in this study a sample of 500 was used. The significant of the path model analysis was determined through a t-test from the bootstrap of the samples (Hair et al., 2011). These results aids research hypotheses development in supporting or not supporting propositions for each path in the structural model, depicting direct association between latent constructs.

**Table 2.**

## Path Analysis

<b>Paths</b>	<b>T Statistics</b>	<b>Remarks</b>
Economic factor -> Voluntary Carbon Disclosure	1.3322	Not supported
Financial Market factor -> Voluntary Carbon Disclosure	1.9049	Not supported
Institutional factor -> Voluntary Carbon Disclosure	0.0628	Not supported
Social Factor -> Voluntary Carbon Disclosure	2.6882	Supported

Source: Authors' Analysis

## 6. Discussion

The study investigated the influence of social factor on voluntary carbon disclosure in listed property sector companies in Malaysia. The industries within the sector include the real estate investment companies, the property management companies and construction companies. The study used the PLS-SEM to model the determinant effect of social factors on Carbon disclosure; and a path model bootstrap to test for significance. The results of the study show that social factor has significantly deterministic influence on voluntary carbon disclosure in the property sector of a developing economy.

In the analysis the social pressure factor had a loading of 0.266, and the bootstrap analysis a shown a result of 2.688 which is higher than the t-test threshold mark of 1.96, hence we can statistically infer that social factor significantly influence voluntary carbon disclosure in the property sector companies. The result agrees with the finding of Luo et al. (2012), which was located with Global 500 companies.

The results of the study agrees with the propositions of legitimacy theory that the size of a company and the media coverage a company attracts due it nature of business is directly proportional to carbon disclosure. This means that large-size companies attracts more media coverage and gets more public and social attention, hence are motivated to disclosure more carbon information so as to bridge legitimacy gap.

The social factor was measured with firm size constructs and political visibility constructs, the results show a loading of 0.961 and 0.966 respectively for the constructs, this statistics is in accordance with the study in (Dwyer et al., 2009; Musa Mangena et al. (2014)), and while both loadings are significantly high, it can be observed that visibility has a higher loading therefore have a greater influence on the influence of social factor.

## **7. Conclusion**

The study aim to determine the influence of social factors on voluntary carbon disclosure in the property sector, the result show that social factor has a significant influence in motivating company executives to disclose carbon information in their annual reports. The social factors are represented by two indicators firm size and visibility; the effectiveness of visibility was found to be greater.

The implication of this result is that with increase in the level of education and awareness of the public the social expectation will increase hence the public pressure and therefore an increase in the disclosure and the more companies will participate in carbon reduction and climate change mitigation.

It also implies that public recognition for companies that contributions in the areas of environmental protection, emission reduction and green projects; will motivate companies to disclosure to attract such positive recognition.

The study is limited to developing countries, which are not obligated under the Kyoto protocol to impose mandatory carbon disclosure regime, also it restricted to the built environment companies, it may be necessary for further studies to be done on other sectors of the economy.



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## ENGAGING UNIVERSITY'S ROLES IN SOCIAL INCLUSION

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**ABSTRACT.** This paper presents the role of a public university in Malaysia in engaging into social inclusion responsibilities. The partial results of archival data and focus group discussion are presented from the actual study. The findings explain on how a university impacted on improving society through providing facilities and services to their neighbor.

**Keywords:** social responsibilities, social inclusion, social impact, neighbor, community engagement

**JEL classification:** M14

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### 1. Introduction

Social responsibility has become one of the pertinent issues being discussed and researched in the past several years because it turned out to be an increasingly important component of sustainable economic and social development. One could not deny the fact that when it comes to

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social responsibility, large corporations that are under public scrutiny should adopt social responsibility as the backbone of the operation together with all other actors of society.

Universities are known as having direct influence to the quality of life in the community due to their educational, research and social actions, and because of that factor universities certainly could be listed as one of these actors. By exhibiting socially responsible behavior, universities demonstrate that they know and can respond to current social issues both through personal projects related to community development and through educational programs which educate young people to become socially responsible individuals and equal participants in creating positive social change (Peric, 2012). This paper discloses initiatives by a public university namely Universiti Teknologi Malaysia (UTM) in developing community capacity for their neighbors.

In relation to social isolation, UTM is expected to contribute in creating society where all individuals can live to their full potential and lead lives in line with their own needs and interests. By providing facilities and services, it would benefit community to improve its abilities to learn by participation, and make decisions which gives impact on the community by having a voice.

Apart from being a provider of education, leader of internationalization, pioneer of research and development (R&D), and developer of economy, UTM is also perceived as a neighbor to the community. As a neighbor, it offers other benefits and services. In some cases, some UTM affiliates proactively offer services within campus as well as outside the university boundary, whilst in other cases, near or distant community members come to UTM to enjoy the facilities and amenities available for public use. Thus this study investigates the impact of UTM in providing facilities and services to community. We emphasized on the role of UTM as neighbor.

In the context of this paper, community is referred to UTM's neighborhood and it is defined as residents and/or outsiders of UTM. Even though it can be argued that 'residents' perceptions and definitions of their local area are not "holistically" defined, but according to Hwang (2007) it is a way to define neighborhoods or community areas because they are an independent reality that should not be ignored or discounted as these communities are believed to be very significant for UTM.

The idea of improving society is not merely looking at 'welfare' or 'charity' works but rather to engage with disadvantage groups so that their well-being and development can be enhanced. Federico (2012) mentioned that the university community is a place of belonging for thousands of people and it gives them substantial meaning in their lives, which signify certain bonding sort of like forging a shared identity. Therefore it is believed that universities should enhance their social responsibilities to the public, ethical behavior, and the need to practice good citizenship. They are also responsible for improving education in the community, pursuing environmental excellence, practicing resource conservation, performing community service, and sharing quality-related information as part of their social inclusion initiatives (Schneller et al. 2011).

## **2. Literature Review**

The notion of social inclusion can be dated back at least to the nineteenth century sociologist Weber and regard for the importance of social cohesion. In terms of more recent history, the term is more readily identified through its counterpart - social exclusion. One of the ways that this ideology may exist from the perspective of higher education theory and policy is through social capital. Sociologist addresses that social capital is "the reproduction of social class divisions and inequalities of power" that stressed on free from social power imbalance. It means that despite pertain on economic interests, the social inclusion primarily aims to enable all human beings to participate fully in society with respect for their human dignity. Here, acts of community engagement and participation are foregrounded. Increasing social and civic participation can also be linked to community sustainability, which has been highly addressed compared to economic interests. For instance, the role of sport to increase the social inclusion is developed in Melbourne by the Department of Planning and Community Development with the Australian Football League (Gidley et al. 2010).

The relationship between social inclusion and social capital can be explained in the form of social capital is central to a social inclusion agenda. Social capital is seen as a way of expanding empowerment, well-being and community development towards an improved society (Skinner et al., 2008).



O'Halloran (2007) stated in her book of *Charity Law and Social Inclusion* that social inclusion is not just a policy but it is a process. It requires a proactive approach involving the investment of resources and the implementation of action plans necessary to make it attractive for the marginalized to join with the majority (O'Halloran, 2007). Besides that, the concepts of inclusion and exclusion are multidimensional due to the concepts encompassing more than the concepts of poverty and inequality (Oxoby, 2009). Polat (2011) stated that inclusion is not only restricted to the young generations who experienced difficulties but is involved all people with regards of their gender, race, ethnicity and others aspect of an individual's identity that may be perceived as different. Previous studies have defined social inclusion in variety of meaning nevertheless of individual perception, health sector, country and others (Betram et al., 2010).

Bates and Davis (2004) defined social inclusion as ensuring that people who experience difficulties in learning or attending education have complete and fair access to activities, social roles and relationships directly along with people who are non-disabled citizens. Their study also emphasized on the importance on how social capital and social inclusion integrate with each other. Thus, this shows that the concept of social capital believed to be one of the helpful in additional perspective to those who access to learning disability and by doing this it may indirectly promote social inclusion. The most popular conceptualization of social capital is explained by Putnam (1995) as a concept that refers to connecting among individual and the community while maintaining the norms of mutual trust. In addition, he differentiates between two forms of social capital that which acts as a link between communities and which bonds the difference between them. The idea of social inclusion provides opportunities for individual to take part in society and also concerning on community that are willing to adjust to fit with their various need while maintaining their cares for members in society and willing to make them feel welcome (Marino-Francis, and Worrall-Davies, 2010).

Teesside University is one example that depends on social inclusion as its commitment towards communities that it serves which became a dire success factor for the university to win the Times Higher Educations' University of the Year Award in 2009/10. Some examples of contributions of the social inclusion by the university include:

(i) Involved actively with community groups as required, including supporting social events which are relevant to the achievement of the University's mission.

(ii) Develop and made available/accessible University sports facilities for community groups whenever they are not used by students; and provide students' expertise as part of volunteer work in relation to various aspects of sport, including coaching.

(iii) Offered available meeting rooms for community groups' purpose when not used for University activities

(iv) Created space and opportunity for cultural activities to be displayed, promoted and performed; and providing a forum for dialogue on issues relating to culture in the Tees Valley.

(source: [www.tees.ac.uk/docs/docrepo/About/Framework.doc](http://www.tees.ac.uk/docs/docrepo/About/Framework.doc) )

The above statement implies that university social responsibility (USR) or corporate social responsibility (CSR) which includes 'community engagement' is currently becoming an important agenda and should be specified in university policy and later on transformed into a community engagement framework. Similar to other organizations, universities should also play an active role and participate in the development of local communities and social capital as universities have a direct impact on the economic, social, and political development of society (Smith, 2008). Relying on this sentiment, Monash University has always believed that they need to become engaged and always offering services to the community for them to become a successful university above others. In doing so, one of their recognized effort is acknowledging the community influence in life-long learning and highlighting community knowledge, of which the university simplified this as "community outreach, building and development" (Monash University Community Engagement Framework, 2010).

As emphasized by Erickson (2010), a university mission has traditionally been focused on three core areas: teaching, research, and service. The service component has taken many forms over time and has expanding its approach and outcomes, for example, engaging student service in communities. Previous research have claimed that little empirical evidence exploring impact of community engagement between universities

and their partners including community outcomes of service-learning (Leisey et al. 2012; Erickson, 2010). Therefore it is difficult to discuss on what constitutes best practices and impact for the community engagement. One of possible reasons for this lack of research is the complexity in introducing the community itself due to cultural differences (Erickson, 2010). The concept of community impact is related to social formation that also includes community voluntary participation, their enhancement towards personal skills and development. In relation to this, the concept of community engagement is also related though it is understood that previous research experiences conflict when defining or conceptualizing community engagement or community development. In reality, community development overlaps concepts in the social sciences literature, including social capital, community capacity, civic capacity or social inclusion (Trojanowicz, 1988; Stern, and Seifert, 2009).

A study by Community Centres in South Australia (2013) suggests social benefits can be assessed to the benefits of individual, community, family and government based on specific scale as shown in Table 1 below:

**Table 1.**

Indicators for Social Benefits

Develops/delivers services of centres
Extent of volunteerism, use and development of skills
Participation, generic skills, personal development
Improves employment and wage outcomes, critical for participation
Employment, supports access at low cost
Reduces transaction costs for individuals
Facilitates participation at low/minimal cost
Health education, access
Support school attendance basic nutrition, family benefit
Engagement, reduce social isolation

(Source: Community Centres South Australian, 2013 pg. 3)

However, there is no solid definition on social impact and there is always difficulty in achieving a common understanding among researchers. The definition itself relies so much on social context. As argued by Burdge and Vanclay (1996), it would be difficult especially for social impact to prove the satisfaction of the courts. Furthermore, there are many impacts that cannot be mitigated or rectified so compensation is not necessarily a desirable strategy. How impacts are measured is very subjective. Certain impacts, such as changes to the environment or character of a community may be perceived as negative by some members of the community, and positive by other members. The most important is the value of judgements of individuals or in other words the different perspective of individuals. Vanclay (2002) measures social impact based on people's way of life, their culture and their community. Whereas Di Nucci and Spitzbart (2010) define social impact from the perspectives of degree of satisfaction, level of participation and level of behavior.

**Table 2.**

Level of Impacts

<b>Level</b>	<b>Measurement focus</b>	<b>Questions addressed</b>
1 - Reaction	Participant's perceptions	What did participant think of this program/facilities? (e.g. program – content, delivery method; facility – tangible, assurance)
2 - Learning	Knowledge/skills gained	Was there an increase in knowledge or skill level?
3 - Behavior	implementation	Is new knowledge/skill being used transfer to others? (e.g. practice new behavior, motivated etc)
4 - Results	Impact on community	What effect did the program/facilities have on the community? (e.g. improvement in quality of life, satisfaction level etc)

(Source: adapted from Kirkpatrick and Kirkpatrick, 2006)

In this study, we relate and measure impact based on Kurt Lewin's philosophy of learning (Schein, 1995). According to this scholar, learning changes occur in skills, in cognitive patterns (knowledge and understanding), in motivation and interest and in ideology (fundamental belief). Learning is change, knowledge and also behavior. The changes are directed more towards reinforcement than to alteration of patterns of knowledge and behavior. More specifically, the impacts are measured based on Kirkpatrick's model of evaluation: reaction, learning, behavior and results. For instance, the community responses to using facilities/ services or attending programs provided by the studied units are valued according to the suitability of the concept (Table 2). How we adapt the concept into this study has also been discussed in the methodology.

### **3. Methodology**

This paper presents partial findings on UTM impacts as neighbors as part of their social responsibility. The scope of the actual research covers facilities and services provided by UTM. The services are categorized into: (a) UTM, within its boundary, is seen as utilizing its facilities for providing services, and (b) UTM, outside its boundary, is seen as utilizing its expertise for providing services such as aids for the community in need. In this paper, the partial findings on the second category of services namely voluntary services on community engagement, and finding on sports facility (i.e. stadium) are presented. Content analysis is used based on data gathered from 2008 - 2014 from various sources such as annual report and corporate document. However, data for sport facility only utilized document gathered from 2014 onwards since the stadium was newly constructed and open for public access after that date. Data was coded according to their uniqueness as 'facilities' and 'services' entail distinctive characteristics according to various units that provide facilities and offered services. The findings on focus group discussion (FGD) were to support and explain the impact levels. We borrowed the model of programs evaluation by Kirkpatrick and Kirkpatrick (2006) to categorize the data into themes as below:

**Table 3.**

Data Themes

<b>Reaction Level 1</b>	<b>Learning Level 2</b>	<b>Behavior Level 3</b>	<b>Outcomes/Results Level 4</b>
Satisfaction in using facilities Satisfaction in receiving services/ attending program (facilities and services)	Community capacity or capability gained from attending program (Services only)	Behavior changes Contribution to others based on what have they learned (facilities and services)	Value to community Improve quality of life Greater life satisfaction Higher community morale (facilities and services)

Note:

Reaction – to what degree participants react favorably to the learning event

Learning – to what degree participants acquire the intended knowledge, skills and attitudes based on their participation in the learning event

Behavior – to what degree participant apply what they learned during learning event to others

Results – to what degree targeted outcomes occur as a result of learning event(s) and subsequent reinforcement

(Source: adapted from Kirkpatrick and Kirkpatrick, 2006)

Within the data analysis, number of comments was less important than quality of comments. The meaning of the comments retained its importance regardless of number of comments.

## **4. Findings and Discussion**

### ***a) Findings on Sports Facilities***

The UTM has had a considerable positive impact on the availability of sports facilities in Johor Bahru. For instance in 2014, UTM stadium facilities had been visited and used by more than 50,000 people coming from various communities of Johor Bahru and nearby area. This had contributed to approximately RM25,000.00 in term of profit for UTM based on the sport facilities. Despite the income received and the obvious impact contributed by the university to the community, UTM is absorbing some of the cost. For example, if they used XY Sports Complex, a gross

amount that will be spent by the community is expected to be more than 30 % as compared to UTM. The implication is that UTM has played higher roles in providing and promoting a healthy lifestyle not only for its own students and staff population but also to the neighboring community in the Johor Bahru area.

**Table 4.**

## Usage on Stadium Facility 2014

Type and Number of organization	Number of User	Amount charged by UTM (RM)	Amount charged by outsider* (RM)	Impact*
Profit organization (2)	1000	1600	2400	Save 12.3%, RM2496
Non profit (31)	51200	24,800	37,200	Save 50% RM12,400
Total (33)	52200			

\*XY sport complex rate: RM300/per 2 hours (day) (RM400/2hours (night)  
(Source: Sports Centre, UTM)

Overall responses from the FGD showed that the four participants were satisfied with the facilities provided and attracted to choose UTM because of strategic location, reasonable rental fee, good and advance facilities and also promoted by their friends (Level 1: Reaction). Because of this, they have intention to continue using facilities in UTM and become loyal customers (Level 3: Behavior):

*Compared to other places such as XY, I prefer UTM since all sports facilities are available and the location is more strategic and near. Last time I had used the old facilities which were at Kolej Tun Fatimah when I was the UTM student. Compared to present, the facilities are more advance. I would happy to recommend UTM as a good venue for my school's sports day in future.*

*Though I am now working in Pasir Gudang, I still use facilities here because am familiar with UTM and the location is easy to access by outsiders.*

**b) Findings on Community Engagement**

UTM coordinated more than 40 voluntary projects from 2008 to 2014 (based on available record). These projects not only engaged and strengthen the skills and abilities of UTM staff and students to take effective action and leading roles in the development of their respective communities but it also involved more than 2360 volunteers including students and staffs who gave approximately 1300 hours of their time in various projects that had been conducted by UTM during these periods. These voluntarily projects also include service-learning projects that produce student learning outcomes and curriculum engagement which provided real world exposure via interactions with the members of the community. This implies that while neighbor or communities receive benefit from students and staffs involvement, at the same time they also offer golden opportunities for the students particularly to learn and develop skills and abilities in USR which could be continued by students on their own in later stages due to the experience gained earlier.

**Table 5.**

Community Engagement (2008 – 2014)

No. of staff	No. of student	Number of projects per duration			Hours of volunteering
		1-3 days	4-6 days	≥7 days	
262	2098	25 projects	11 projects	7 projects	1300*

\*Based on estimates of 8 hours per day

(Source: Centre for Community and Industry Network (CCIN), UTM)

The findings from FGD disclosed how UTM impacted community through engaging roles in outreach program with the Breast Feeding Club, Johor. There were four representatives participated in the FGD. The participants shared their experiences by collaborating with UTM in organized a workshop on Malaysian Breastfeeding Peer Counselor on October 2014. As reported by the club representative, 50% (10) participants from the workshop had changed their level of action from becoming ordinary members into active peer support after they attended the workshop. This implies that UTM has lead the event to not just increasing number of volunteers but more importantly has changed their life as peer support or counselor in community. This findings represent the Level 4 (outcomes) based on the Kirkpatrick's model.



In term of the reaction level (Level 1) responded from the workshop, most of the participants satisfied and engaged with the program. Therefore, their behavior level has changed consistently (Level 3):

*So far they (especially full time breast feeders) do breast feeding by their own styles, but when they realized the proper techniques and knowledge they became more interested and gave full attention in the workshop. In fact some of them whom their husband joined the workshop, practiced the technique with their couples.*

*Once we joined the club, we can share our knowledge and services (skills) to others.*

*We came from different background, some of us are housewife, teachers, executives, doctors, and those who are working in industries. With this differences we shared something interesting related to breastfeeding. We have What's App group, and we can easily ask and share about breastfeeding. It's a kind of good networking.*

The results on Learning level (Level 2) can be illustrated from the level of changes in knowledge, skills or attitudes:

*When we become a mother sometimes we tend to less socialize and focus more to our family. So, we may experience depression, loneliness and unconsciously our social skill could also decreased. By having this social group could overcome this problem and we gained extra knowledge.*

*Teachers like us have limited knowledge to our own field. I do not like be in my own world. So, I socialized and joined this club and I gained more knowledge. Some of our members have network with peers or counselor from other state. Thus, we learnt a lot.*

## **5. Conclusion**

While study on USR engagement in social responsibilities have become a common practice for many universities, little empirical evidence is available exploring the impact. This paper discusses the university's

role and its impact as a neighbor. It is assumed by providing good facilities to the neighbor and offering community services by involving staffs and students in volunteering projects will enhance social responsibilities awareness and promote good citizenship culture.

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## **DESCRIPTIVE EVIDENCE OF CORPORATE GOVERNANCE & OECD PRINCIPLES FOR COMPLIANCE WITH JORDANIAN COMPANIES**

**YOUSEF SHAHWAN<sup>1</sup>, NOR RAIHAN MOHAMMAD<sup>2</sup>**

**ABSTRACT.** The OECD principles of Corporate Governance (CG) are the most important public policy mechanisms that assist regulators to efficiently evaluate and improve the institutional, regulatory and legal framework for sound CG. Consequently, the primary objective of this study is to assess the level of practical compliance with the OECD principle of CG by the Jordanian companies. The paper is designed using the conceptual approach. The information used for the study is obtained from the library search. The study found that some of the OECD principles are practically implemented such as (i) framework of good CG; (ii) the rights of shareholders; (iii) role of stakeholders; and (iv) disclosure and transparency. The principle of equitable treatment of shareholders and the responsibility of the board are also used in practice. However, it is suggested that the Jordanian companies should strictly apply the remaining principles because they recognise the importance of every aspect of organizational stakeholders and their due rights for the achievement of the primary goal of the organization. The study will provide some insight to investors, firms, stock exchanges, government and others that play a role in developing good GC.

**Keywords:** Corporate governance, OECD principles, Jordanian companies

**JEL classification:** M14

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## 1. Introduction

Corporate governance enhances the competition between the businesses for social and community development, and significant relations have also been witnessed with the factor that fortifies the economic growth and corporate governance practices. However, corporate governance will increase the level engagements of the firms in the social and community development (Sa'eed et al., 2012).

Corporate governance is considered a professionally designed framework for analysts, investors and companies for evaluating factors comprising the essential elements of corporate governance. Bawaneh et al. (2011) argue that the "Sarbanes-Oxley Act of 2002" provides evidence for sustainable community development and firms effort to create good corporate governance and ethical business standards. The principles of corporate governance for Jordanian companies were established with the efforts of Jordan Security Commission (JSC) in view to develop the national capital market for Jordan and to enhance the national economy at all levels. The Jordanian companies adopted the OECD principles for corporate governance under the regulatory and organizational framework which enhances the firms' performance while implementing the social responsibility accounting alongside their normal operations for achieving a sustainable community development (Alkababji, 2014).

Corporate governance involves the rules and regulations relating to business operations and the efforts of the managers while completing their assigned tasks besides their engagement for community development and for the protections of environment in which they operate (Wolfensohn, 2001). Therefore, the Jordanian companies are more in focus for corporate governance as the mechanisms by which the agency's problems are framed and sought to be resolved which enhance the interest of the stakeholders, creditors, managements, employees, customers and the public at large. A set of mechanisms has been developed and it assists in confirming the truth, fair and justice when dealing with the stakeholders to strengthen the transparency and accountability of a particular business organization (Hakim, 2002).

Since the last couple of years, a recent development in Jordanian economy has shown an estimated increase of 3.5% growth in GDP for 2012 and 2013 in comparison to the previous years and still, it is increasing at a rapid rate. The country has established an innovation-driven approach

which is considered as a problem-solving strategy. Despite the regional disaster, the effort was made by the leaders to reassure that the country's economy is at its peak because of the economic reforms and advancement. In 2012, Jordan's economy exhibited a seven point improvement from being ranked at 72 to the 64<sup>th</sup> in the list of 144 countries participated in the global competitiveness reports of the world economic forum. However, Jordan was placed at the 106<sup>th</sup> position among 185 countries performing business transactions, in the World Bank but at present, the country is standing at the 32<sup>nd</sup> position. Jordanian economy is freely driven by the market with an outward-oriented policy headed by the private sector. The economy is also service-oriented in nature, since the service sector contributes 67.6% of the real gross domestic product (GDP), whereas, the manufacturing sector contributes 19.2% in the GDP. The primary manufacturing exports of Jordan constitutes textiles and garments, jewelleryes, and pharmaceutical products. Moreover, the electrical appliances, machinery and equipment, furniture, chemicals, minerals and plastic products are also included in the exports products. The main international business partners including the North American Associations contributes about 28%, while the Arab countries 44%, Asia 21% and EU 3%. The demands for Jordanian manufactured commodities have been increasing due to the various bilateral and multilateral international agreements (Embassy of the Hashemite Kingdom of Jordan, 2013).

Beyond the increasing production capabilities, the country has proficiently witnessed the ongoing privatization of the large public enterprises. The privatization program of Jordan is regarded as the most successful in the Middle East and it includes the privatization of cement sector apart from the telecommunication sector (World Bank Report, 2013).

### ***1.1. Challenges of the Jordanian Economy***

Despite the numerous achievements, the Jordanian economy is still in trouble and underlies in developing economies of the Middle East Jordan is facing various challenges from different angles i.e. the social well-being of the citizens (CIA world Fact Book, 2014). The disturbing challenges to the government include deficient water supplies and inefficient use of natural resources and these are the basic reason why Jordan still

relies on foreign support. Additionally, the incurring deficit budget, increasing poverty and unemployment rate, and high inflation badly impacted the performance of the companies operating in Jordan. Sound efforts have been made to curtail the problem by King Abdallah since the very first day he took the throne in 1999 (CIA world Fact Book, 2014) by establishing and implementing different types of substantial economic reforms. These include privatizing the public companies, opening the trade regime and removal of certain fuel subsidies which prompted the economic growth and development of the country. The growth of the Jordanian GDP, exportation, construction and tourism has been affected by the global economic melt-down and other regional turmoil.

However, the Jordanian government made a strategic move in 2011 and 2012, where they approved some economic programs and allocated supplementary budget to improve the living standard of the people of middle and lower class. However, the series of attack on the natural gas pipeline in Egypt has caused a financial constraint on Jordanian economy (CIA world Fact Book, 2014). Conversely, this has made Jordan to import an extremely expensive diesel from Saudi Arabia primarily to generate electricity.

### ***1.2. Reforms in Jordanian Economy***

Substantial improvements have also been witnessed for Jordanian economy, e.g. the successful implementation of structural and legal system reform, reforms in tax laws including the Alternative Energy Law (AEL), Investment Promotion Law (IPL) and Labour Law (LL). Henceforth, these newly introduced laws have greater contribution in bringing in the domestic and foreign investment that concerned with the alternative energy and entrepreneurship. The legislative developments in Jordan have also made efficient efforts to bring the capital from the Jordanian government into public projects in the shape of loan to small entrepreneurs. A sum of \$2 million was allotted to the qualified micro-finance institutions in order to finance the lower-income persons to extend their current operations (CIA world Fact Book, 2014). Consequently, it leads to the enhancement and development of small and medium enterprises. In addition, credit facilities have also been introduced with the primary goal of promoting the development of private sector as well as increasing the downstream benefits for consumers and

suppliers through small enterprises (World Bank Report, 2013). Apparently, Jordan has become a leading country for foreign investors that seek to source out product development, Arabization and localization of the content globally. The provision of instinctive creativity and skilful workforce with first-class development and funding facilities resulted in the development of skilful force that is able to operate small and medium businesses. On the other hand, the sound leadership, skilled and well-trained workforce enables Jordan to assure investors that it is a promising place for investment. However, since over the past decade, not such efforts have been shown by the government in the health and educational sectors (World Bank Report, 2013).

### ***1.3. The Application of OECD Principles and Corporate Governance in Jordan***

The application of corporate governance code in Jordan can be grouped into five categories as follows: Disclosure and compliance with the accounting standards, transparency in privatization, legislative framework and government oversight, efficient supervision of the board of directors, and protection of minority rights of shareholders and capital market's framework (Khoury, 2003). The first OECD principle of corporate governance is to safeguard the rights of shareholders in an organization, especially, in essential matters (Clarke, 2003; OECD, 2013). The Second OECD principle stipulates that corporate governance should assure the equitable treatment between shareholders including the minority, local and foreign shareholders. The Third OECD principle emphasized on the relationship between the company and the stakeholders while creating value and reputation for the corporation. The fourth principle states that the corporate governance in a firm should ensure the disclosure and transparency for all matters concerning the business enterprise. The Fifth OECD principle of corporate governance sketches out the duty and responsibility of the board of directors. The corporate governance framework should make sure that the corporate directors duly observe the company rules and regulations. However, the mechanisms by which the board oversees and control the management, and the accountability of the board to the shareholders of the firm are all application especially in Company Law (OECD 2004 and 2008).



The protection of the right of minority shareholders can be improved through the application of proper corporate governance in a business organization (Chhaochharia & Laeven, 2009). The crucial phase of good corporate governance is to ensure the protection of the minority shareholders who are less active, rather than the majority and active shareholders in the firm (Murphy & Topyan, 2005). The founders of the company should play an essential role by implementing the corporate governance provisions of the Company's Law (World Bank, 2004). Corporate governance contributes to the growth and development as well as the financial stability by strengthening the confidence of the market, financial market integrity and economic efficiency (OECD, 2004; Kim, 2006).

It concerns the way in which the board of directors of the companies can enhance the performance of the corporation and obtain a fair return for the corporations' performance (Sueyoshi, Goto & Omi, 2010).

### *1.3.1. Legislative Framework and Government Oversight*

The mechanisms of corporate governance in Jordan have been developed based on the legal concept of the country (Al-Basheer, 2003). Various Jordanian laws have been in operation including the Security Law, Company Law, Banking Law, Commercial Law, Law of Investment Promotion, Insurance Law and Law of Privatization (Al-Jazi, 2007). Furthermore, in a study conducted by Al-Jazi (2007) and Shanikat and Abaddi (2011), the authors argued that the abovementioned laws emphasize on the following issues related to corporate governance:

1). The Company's legal personality is independent of its shareholders. The financial disclosure of the enterprise is also separate of the financial disclosure to its shareholders.

2). The rights of ownership of firms and shareholders comprise nature and sales of assets and their transfer of ownership, and transfers of mortgages or possession (in the case of portable property). The laws above oversee the method and circumstances that warrant the acquisition and transfer of resources.

3). The nature of legal structure and arrangement of limited-liability companies include the general shareholders, board of directors, and the audit committee.

The Accountancy Profession Law No. 73 of 2003 was issued to standardize the accounting profession in Jordan to improve corporate governance especially in relation to the enhancement of corporate social responsibility. The AP Law No. 73 is recognized as a significant part of corporate governance in Jordan since it provides a base for assessing and evaluating the performance of the firms. Additionally, another aspect to consider is that it improves the role and efficiency of the Jordanian Association of Certified Public Accounting (JACPA) and formed the High Council of Accounting and Auditing. However it should be noted that although the attention to the Law is primarily related to the regulation of JACPA, it did not consider the liberation of auditors and the total compliance with the auditing standards and professional ethics (Shanikat & Abaddi, 2011).

Many rules and regulations of corporate governance were established by the Jordanian Company's Law. These rules and regulations are concerned with the activities of auditors of the companies. The desired rules governing the contents of the auditor's reports were clearly stated and the proper way of appointing auditors in firms. The Jordanian Company Law permits the auditor's appointment to be held in an annual general meeting by the shareholders and the auditor should not be removed during the period of auditing except for reasons specified in the law.

The law protects the independence of the auditor. The auditor should report their opinion about the fair view of the financial statements to the entire shareholders based on the international auditing standards and the law regulations (Shanikat & Abbadi, 2011).

### *1.3.2. Capital Market (Institutional Framework)*

Good corporate governance framework is a fundamental aspect of the organizational success (OECD, 2004). Mangena and Chamisa (2008) have reported that establishing a sound and proper regulatory framework will be the pillar of the effective implementation of corporate governance in the company. Therefore, three central bodies were created by the Securities Law of Jordan, such as the Securities Depository Center (SDC), the Jordan Securities Commission (JSC), and the Amman Stock Exchange (ASE). These bodies have independent financial and administrations, and henceforth,

JSC also has five independent members who are serving full time and are very competence. The Securities Law was established with the primary aim of protecting the investors from fraud and other dishonest behaviours in the companies. It also provides a secured environment for securities transactions. The Security Law of Jordan monitors the activities in the stock market. Furthermore, the Securities Law of Jordan provides that, all registered listed companies are subject to the control and monitoring of the multi-related securities, comprising accredited securities, licensed securities, and exporters (Shanikat & Abaddi, 2011).

Moreover, the Securities Law provides a method for stimulating the rules of corporate governance. Further, it comprehensively defines the market regulations, the issuance and allotment of shares or bonds as well as trade procedures. It also expresses the responsibility and duties of brokers, the issuers of securities and auditors, as well as the requirements for listing on the stock markets. The procedures for minority rights protection and the requirements for the disclosure of significant information have also been articulated by the Security Law. Besides that, in the process of maintaining the ethics of transparency, the law forbids party transactions, misleading investors and disclosing any issues that may harmfully affect the capital market (Shanikat & Abaddi, 2011).

### *1.3.3. Disclosure and Compliance with the Accounting Standards*

Complying with the accounting standards as well as disclosing the relevant information by the corporate, is one of the most important ethics for the success and the going-concern of the corporation. Rajagopalan and Zhang (2008) stated that full disclosure and transparent accounting standards are compulsory aspects of the robust corporate governance. Consequently, business organizations are demanded to follow the internationally accepted accounting and auditing standards based on the requirement of the Company Law, the Insurance Law, the Banking Law, and the Securities Law. According to Word Bank (2004), Jordan fully adopted the international accounting standards in 1994, which is currently called the International Financial Reporting Standards.

Campbell and Keys (2002) and OECD (2004) opined that accurate and proper disclosures should include the financial and operation reports of the corporation, objectives, procedures and strategies, ownership structure

and governance framework. Material and relevant information should be provided in relation to the members of the board of directors and key employees (Seal, 2006). Additionally, disclosure should exhibit the reliability and consistency of laws and regulations and policy and instruction in relation to the company and its nature of business (Shanikat & Abaddi, 2011).

#### *1.3.4. Transparency in Privatization*

In the 1990s, the government of Jordan implemented various types of economic reforms to enhance the private sector's participation in the economy; these include privatizing some governmental companies and institutions (Shanikat, 2007). The nature of the activities of these national enterprises and agencies requires them to be used on a commercial basis so as to improve their services and raise the proficiency of the privatized companies (Shanikat, 2007). Shanikat and Abaddi (2011) stated that the Jordanian Privatisation Law No. 25, decreed in 2000, created a Council for privatisation that is saddled with the authority to postulate the value of the government's contribution to companies. The Law is regarded as one of the primary sources of sound corporate governance as it insists on the transparency of the sale procedure, the sharing of privatization revenues and compliance with the rules of transparency.

#### *1.3.5. Effective Supervision of the Board of Directors*

The board of directors' supervision is an essential variable in corporate governance due to the fact that they are charged with advising, appraising, reviewing and evaluating the management (Gillan, 2006). In Jordan, this also means that the board of directors are always performing the specified responsibilities given to them by the law of the corporation. Their assigned duties include management planning for the company, setting organizational policies, as well as the appointment of the chief executive officers (Shanikat & Abaddi, 2011).

According to Shanikat and Abaddi (2011), the power, authority and responsibilities of the management of the Corporation, as given by the Company Law, include the following:

i). Formulating the financial statement of the company within three months at the end of every fiscal year and preparing the annual reports of the previous year's performance and the projections for the coming year. Moreover, publishing the prepared financial statements and annual reports should be done in not more than 30 days from the date of the Annual General Meeting;

ii). Internal control systems should be maintained for the administrative and financial accountability; and

iii). the shareholders of the company should be invited to the Annual General Meeting (AGM).

The Jordanian Company Law controls the conduct of meetings in order to improve corporate governance and efficiently control the functions of the board any board members. For instance, failure to attend four sessions consecutively without an acceptable reason to the council may cause the chairperson to lose his/her membership in the council. In some cases, if the president appeared to be absent from meetings of the board for six consecutive month seven if he/she has an acceptable reason for the absenteeism, he/she will be removed from the position. Furthermore, the board committee or any member of it may be sacked by the public authority based on the consent of the shareholders holding a minimum of 30% of the companies' shares (Shanikat & Abaddi, 2011).

The Securities Law of Jordan covers the establishment of an audit committee stanching from the board members. The Law expresses that the committee reports to the board of directors, gives approvals to the report and possesses the following powers and functions:

i). Comprehensive power to exercise control over audit;

ii). Authority to evaluate the reports of the external auditors and follow-up activities, the evaluation of the plan for annual internal.

iii). Responsible for auditing the financial statements of the organization before submitting it to the company's board of trustees.

iv). Ensuring that the accounting and regulatory procedures are accurate.

v). Ensuring that the accounting and auditing standards and other regulated laws are thoroughly complied. The law also organizes and controls the meetings of the audit committee so as to make sure that the board meeting hold once in every three months or more than once if there is a need to do so.

### *1.3.6. Protection of the Rights of the Minority Shareholders*

The Company Law of Jordan permits all shareholders to claim for the compensation if their rights are violated. Holding 15% of the company's capital will enable the shareholder to ask the Companies Control Department (CCD) to audit the financial reports of the enterprise. Moreover, the shareholder has a right to seek compensation with the CCD and court of law for any kind of rights violation conducted by the company's general manager, board of directors and auditors (World Bank 2004).

The Jordanian corporate governance code was first published in 2005, by the Amman Stock Exchange (ASE) (Shanikat & Abaddi, 2011). The five chapters of the Code include the definitions of key terms used; a summary of the board of directors' structures, duties and responsibilities; general meetings of shareholder. Additionally, it also expresses the rights of shareholders and the procedures and rules for financial disclosures alongside the conceptual framework for accountability and auditing. The corporate governance code of Jordan also addresses issues of characteristics of the capital market and the ownership structure (Shanikat & Abaddi, 2011).

However, the responsibility of implementing the rules and the given procedures remained with the Disclosure Department in JSC, and all the associated partners with the companies are likely to promote the application of the rules. The rule might be applied through consolidating the performance of the management and thus enhancing the performance of the national economy and increasing the level of investment (Jordan Securities Commission 2005). Many of these rules were based on the binding legal texts contained in the legislation mentioned earlier. These are general and fundamental rules, and therefore, the details of their aspects and the requirements of the related rules and regulation are not specified. For example, the description of the information required in the annual report is not expressed; this is left to the disclosure instructions of the issuance stock (Shanikat & Abbadi, 2011).

Nevertheless, it is duly noted that the business environment has played a vital role of an element that motivates and promotes the process of adopting the Code. Khoury (2003, as cited in Shanikat and Abaddi, 2011) argued that the distinguishing features of the Jordanian business environment are: (1) some companies are family-owned and managed; (2) some limited-liability companies are not listed on the Amman Stock Exchange; (3) the

Jordanian capital market is concentrated, with just a few companies holding more than 60% of the total market share value; (4) raising awareness and education on corporate governance in public-sector institutions is considered unimportant; and (5) adequate disclosure and transparency instructions are required only for banks, insurance companies and market-listed companies.

In considering the present efforts made by the Jordanian government towards improving its investment climate, Jordan has become the 46<sup>th</sup> country to implement the OECD Declaration on the International Investment and Multinational Enterprises (OECD, 2013). “As an adherent to the Declaration, Jordan commits to providing national treatment to foreign investors – within the limits of the legal restrictions mentioned in the Review – and to promoting responsible business conduct, in line with the OECD Guidelines on Multinational Enterprises, including through the establishment of a National Contact Point” (Shanikat & Abbadi, 2011). This adherence bears witness to the fortitude held by Jordan towards keeping the markets open to the international (foreign) direct investment, increasing its incorporation into the world economy and promoting responsible business conduct. Furthermore, other countries that adhere to the OECD Declaration have confirmed that the Jordanian investors receive a proper treatment abroad and inspire their multinational enterprises operating in Jordan to contribute to the economic, social and environmental progress (OECD, 2013).

## **2. Studies on CG in Jordan**

The corporate governance framework provokes the responsibility of top management to ensure that the firm’s operations in accordance with company’s rules and regulations. Yoshi, Goto and Omi (2010) and Kim (2006) demonstrated that the mechanisms by which the board oversees and controls the management concerned the ways to enhance performance of the corporation and to obtain fair returns for the shareholders. However, the performance and the accountability of the board to the shareholders of the firm contribute to the growth and development of the firm as well as the financial stability by strengthening the confidence of the market and the economic efficiency (Shanikat & Abbadi, 2011). While examining the role of the corporate governance practices and their effectiveness to the companies listed at Amman Stock Exchange, Al-Sufy et al. (2013), Alnaser

et al. (2014) and Al-Ramahi et al. (2014) depicted that corporate governance practices ensure the corporate accountability of the management and will increase the quality of information available to the public. Further, they found a strong evidence of corporate governance practices in sample companies.

Abu-Tapanjeh (2009) analyzed and compared the Islamic principles of corporate governance with their conventional counterparts with reference to OECD and depicted that Islamic principles have broader horizon than the conventional principles.

Survey on Arab banks (2007) and Bawaneh et al. (2011) determined the impact of corporate governance requirements on the banking sector of Jordan and the compliance with the OECD principles as released by the BASEL committee on banking supervisions. They found that the banks in Jordan are paying much attention to the CG practices and as a result, they are in compliance with the CG principles and the requirements of BCB. They also documented that much emphasis is needed on the communicating structure and reporting with corporate governance practices. On the other hand, Al-Sa'eed (2013) analyzed the corporate governance principals in Jordanian banks and depicted that banks have higher level of compliance with corporate governance and they are enjoying high level of disclosure and financial transparency. Their findings also demonstrated that the Jordanian banks are earning higher score in terms of saving rights of stakeholders, transparency and disclosure. Similarly, Al-Sawalqa (2014) also documented that the banks in Jordan are in compliant with the OECD principles and have more than 90% compliance with these principles, and this ratio is higher than their compliance with audit committee. Al Hanini (2014) and Al-Beshtawi et al. (2014) have produced similar results in order to indicate the role of corporate governance in banks (commercial and Islamic) of Jordan and the behaviour of top management to apply the corporate governance practices. Top management responds positively in adopting the corporate governance principles in banks to enhance the share holders' wealth and to protect their rights.

Abed et al.(2012) critically reviewed the different techniques used in the literature to investigate the links between corporate disclosure and practices, and suggested that the links between internal audit quality and internal governance with disclosure and some other techniques such as earning management may also be included in the analysis. Meanwhile, in determining the relationship between earning management and corporate



governance mechanism, discretionary accruals, member's independence, size of board and percentage of CEO duality, Omran et al. (2013) documented that only the size of the board has significant relation with earning management.

## **6. Conclusion**

The principles of corporate governance have important implications for companies to continue and maintain the stability and prosperity. The principles of corporate governance have been used by governments, regulators, investors, corporations and stakeholders in both OECD and non-OECD countries and have been adopted by the financial stability forum as a key standard for sound financial systems (Kirkpatrick, G, 2005).

The Jordanian companies have high level of application of corporate governance in general and to the principles of corporate governance in particular, especially when the corporate governance system in Jordan is mandatory for the listed companies on the Amman Stock Exchange. Furthermore, the Jordanian companies raised the application of corporate governance, where most of Jordanian companies apply the principles of OECD in order to expand the application of corporate governance. Meanwhile, the application of Jordanian guide for corporate governance is limited in a few areas and is considered optional. Therefore, the listed companies should have to apply what is optional and this robust system in Jordanian businesses leads to clarity and credibility. However, the principles of corporate governance ensured that the channel stakeholders (potential investors, the government, the local community, employees, suppliers, etc.), and shareholders are obtaining information of the company and have access to its financial and non-financial performance.

In light of corporate social responsibility, Jordanian companies are bearing pressure from the society and shareholders which constitute significant risks. Thus, companies should have to pay attention to risk management to be safe from financial risk, companies' reputation and turnover risk including market share. In the presence of these risks which affect the company's performance corporate responsibility towards society and the environment and employees, the compliance with the principles of corporate governance will ensure that the shareholders and

other stakeholders and society as a whole have their rights protected and work to develop the company and the community. Whether the study of each principle individually is focusing on the objective and completely different from other principles. Also, the level of the impact of these principles together after studying separately must be considered. In relation to this, Ward et al. (2009) documented that studying the principles of corporate governance or properties together will affect more because corporate governance principles have positive impact. Crowther Aras (2008) examined the principles of corporate governance related with social responsibility, especially with regard to responsibility, transparency and equality.

The core objective of our study was to strengthen the role of corporate governance practices and their effectiveness for companies listed at Amman Stock Exchange which helps to balance the power among shareholder, management and directors, to enhance the worth of shareholders and to protect their rights. The findings of the studies cited above indicated that corporate governance framework ensures the corporate accountability of the board to shareholder and increases the reliability of information available to the public. Meanwhile, the financial sector of Jordan, especially banks, is paying much attention to the CG practices and is enjoying high level of disclosure and financial transparency. The descriptive evidence indicated that much emphasis is needed on the communicating structure and reporting with corporate governance practices. Further, some other techniques such as earning management, internal audit quality and internal governance may also be included in future research to generate better implications.

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## CATALYSING GROWTH THROUGH BOARD MEMBERS ENGAGEMENT IN STRATEGY EXECUTION

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**ABSTRACT.** Strategy Management, a widely spoken attribute among organizations, exhibits their repute on a global platform. Employing strategy to shape the organizational growth is an approach which demands significant research, experience, intelligence and foresight to ensure its success at each level within the organization. The traditional perception of strategy designing reflects the board as the sole responsible authority, with keen awareness of organizational aspects, which include resources, finances, limitations and challenges. Later, when the strategy is rolled out to management and executive levels; many of the strategies lead to a messy, disorderly and disjointed process. Reason behind poor strategy management in the execution phase is the lack of leadership initiatives by board members after strategy planning. This study reviews the role of board members in strategy formulation and challenges faced at Malaysian Government Link Companies (GLCs) particularly in the service sector. It is also looking at minimizing the strategy failure by enhancing the role of board members at deep-rooted levels of strategy execution. In order to capture the rich data from GLCs, this research adopts qualitative approach in its efforts to explore a new dimension in strategy execution. Often challenged by the human perspectives at different levels, the higher lever board tends to limit their scope towards visualizing and rolling out a strategy. This paper

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addresses the conventional strategy management archetype and introducing the board room engagement at multiple levels, to make certain the organizational growth not for a short span but in a long run, hence ensuring organization sustainability.

**Keywords:** Strategy Management; Board Members; Strategy Execution; Engagement; Strategy Success

**JEL Classification:** M14

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## 1. Introduction

Organizational growth in terms of business expansion, profit maximization, competence employees and management members followed by employee training retention, reward and performance management and minimization of risks involved while making a new change or initiating a new project is crucially determined by the effectiveness of any strategy employed to achieve it. The traditional perception of strategy designing reflects the board as the sole responsible authority, with keen awareness of organizational aspects which include resources, finances, limitations and challenges. Strategies proposed by the top management are deliberated and approved by the Board. Later, when the strategy is rolled out to management and executive levels; many of the strategies lead to a messy, disorderly and disjointed process (Bordean & Maier, 2011). Reason behind poor strategy management in the execution phase is the lack of leadership initiatives by board members after strategy planning (Project Management World Library, 2013).

Being the third largest exporter of service and second largest contributor to economy, the Malaysian service sector received maximum attention from the government since 9<sup>th</sup> Malaysian Plan (EPU, 2005). The dream of making Malaysia a “global service hub”, as reported in government

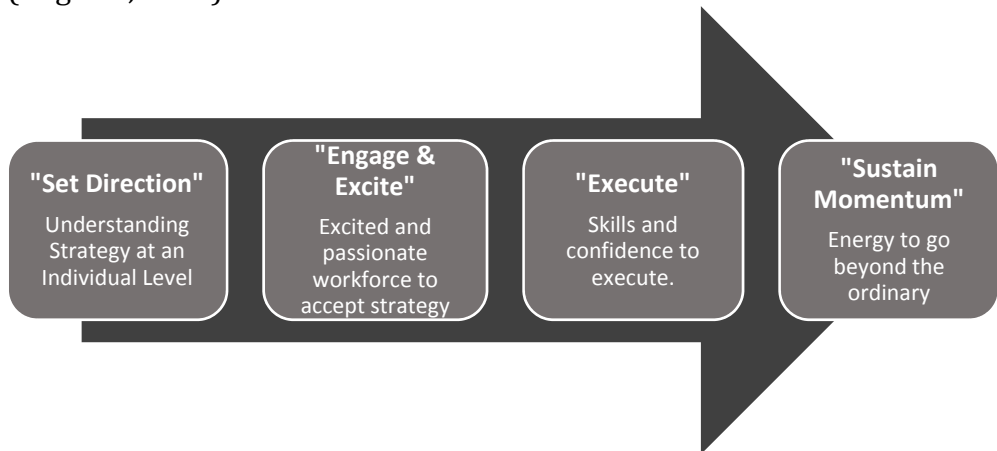
documents, can only be realized if Malaysia achieves superior performance in a cost-effective manner. To realize this challenging task, focus has been shifted to strategic-fit framework in relation to service innovation and execution management especially within the Government-Link Companies (GLCs) and Government-Link Investment Companies (GLICs).

This paper reviews the role of board members in strategy formulation and challenges faced while implementing it. Also, minimizing the strategy failure by enhancing the role of board members at deep-rooted levels of strategy execution is emphasized by overcoming challenges and board audit measures.

## 2. Literature Review

### 2.1. Overview of Strategy Execution in the Organization

Strategy execution is commonly defined as the practice of bringing a strategy to fruition. As defined by RogenSi's Strategic Leadership Execution Framework, four critical forces that drive strategy execution at an exceptional level are: Set Direction, Engage & Excite, Execute and Sustain Momentum (RogenSi, 2012).



**Figure 1.** Critical Forces of Strategy Execution

(Source: Adapted from RogenSi, 2012)



Strategic execution relies on unambiguous leaders and good leadership. An efficient and updated management model, supporting the strategy is required. A review of changes in work processes, functions and operations incorporated by the execution of strategy is required to evaluate the modification in their scope (Mayer, 2011). Martinelli (Martinelli, 2010) says strategy identification and formulation is the domain of business owners and top-level managers, often comprising a board. The activities of board serve as a guideline to all decisions taken at managerial level and below. Strategy's effectiveness is determined by the integrity of short-term goals cohesively accelerating the organization to achieve its long term goal. Strategy execution gradually becomes a culture when mentored by a strong board (Mayer, 2011).

Several challenges are observed during the process of strategy execution, irrespective of the strategy's efficiency to let organization growth. These challenges arise due to complexity during strategy execution for organizations with several functional and operational business units geographically (Johnson-Cramer & Cross, 2007). Also, strategy formulation demands intrinsic involvement of board members, managers and team leads across all functions during early stages of strategy execution. Whereas, management involved at early stages often cite the experience as bureaucratic, unnecessary and slow in action (Balogun, 2006; Burgelman & Grove, 1996; Line, 2004).

## ***2.2. Role of Board Members Engagement in Strategy Execution***

Addressing challenges in making strategy an accepted move to boost growth, following measures can be taken. Areas where board members can participate and create awareness are creating a common sense of purpose and enhancing shared commitment, to make strategy a success. It is up to the Board members to initiate the pre-implementation steps for formulating a strategy, by involving team members from each level to participate in designing short-term goals. These short term goals, when aligned with long-terms goals of board members, will lead organization to adapt a culture favoring the changes incorporated in new strategy (Martinelli, 2010). Board members also make use of risk analysis tool, precisely at the beginning, to allow them to revise the objectives if required. Risk evaluation even helps to back-out a strategy by unleashing the hidden perilous factors in the beginning or even before roll out (Siciliano, 2002).

Strategic execution in the organization is influenced by the capabilities depicted by strong Boards and limitations of a weak board. Mayer's (Mayer, 2011) observations about strong and weak boards outline the organization behavior associated with them. A strong board understands its role, connected to the community and strongly believes in their self-assessment, evaluation and continual improvement as a team. Mature organizations remain clear about the roles played by board members in leading successfully, and tend to invest months in planning a board and cultivating potential board members. It is characterized by precise in job description of board individuals. Also, it is led by a leader council, which motivates debates and discussions, and prevents arguments turning into conflicts. On the other hand, a weak board has poor job definitions, lack of appropriate communication with staff, and limiting the potential of strong individuals to perform as a unit. A weak board may become its own liability if not assessed righteously.

Board members also often play the important function of evaluating the effectiveness of strategy. The successful execution is determined or audited before strategy planning and rollout. The board's evaluation helps an organization to determine the following (Cropp, 1996):

1. Membership accountability and governance
2. Board operations and their worthiness
3. Legal responsibilities
4. Financial overview
5. Planning procedures adapted by board
6. Board-management relations

### ***2.3. Inter-relationship between Board Members Engagement and Growth***

Growth of an organization by strategy management is classified into two dimensions (CFERF, 2012): Financial measures of growth like revenue and profitability; and Secondly, elements of growth like customer satisfaction, development of the human resources, cost efficiency & market image makeover. Growth measurement criteria vary from business to business and tend to be domain specific. Board members usually approved planning for a strategy within these two dimensions thus need different measures

to evaluate growth. Expansion of business by new acquisitions and mergers, introducing or launching a new service/ product, closing the non-profitable ventures to improve sustainability are financial measures to ascertain growth, but they are spear-headed by the Board members of the organization. Furthermore, digging the core practices followed in the company through strategy formulation, and targeting growth at a granular level (Fortna, 2012) from the perspective of strategy change management leading to internal growth is also initiated at the Board level.

### **3. Methodology**

The impact of engagement directly affects the growth of an organization. Also, the current practices followed by boards of various organizations in strategy visualization, devising methodology to incorporate people, strategy and operations in a calibrated way with available resources, was reviewed. Process of strategy planning incorporates 10% of talent & resources, and strategy execution incorporates 90% of it. Still, merely 5% of the organizations implement the visualized strategy successfully (Ottinger, 2012).

The proposed study aims to review, analyze and understand a scenario of strategy visualization and role of board members till its execution phase. The methodology adopted in this research is based on qualitative research design, which allows the researcher to explore, analyze and evaluate the data obtained with respect to the research topic (Seglen, 1994). It is based on content analysis strategy by which the various selected articles and case studies have been analyzed independently on the basis of main topic of research, setting of research, sources of data collection and definition of the concept (Karin Klenke, 2008).

The objectives of the study are:

1. Mining the factors which can capitalize the participation of board members in leading strategy to success.
2. Understanding the process of strategic execution, and mining the factors which can capitalize the participation of board members in leading strategy to success.
3. Reviewing the role of board members, their limitations, strategy's performance and overall organizational growth by engagement of board members.

#### 4. Findings / Discussion

The role of board members is not limited to strategy visualization and formulation by evaluating the competitive factors (Ferkins, Shilbury, & McDonald, 2009). The role further extends to ensuring the right guideline being followed in organization at each level of strategy execution. This section analyzes the engagement aspects of board members in planning a strategy.

The strategy management approach as a step-by-step paradigm consists of following activities (Arnoud Franken, Chris Edwards, & Lambert R., 2009):

1. Visualize Strategy
2. Measured Accordingly
3. Report Progress
4. Make Sound Decisions
5. Identify Strategic Projects
6. Manage the Projects
7. Align Individual Roles
8. Reward Performance

The above points are deemed critical to majority of Malaysian Government-Link Companies especially those under tutelage of Khazanah Nasional and Permodalan Nasional Berhad (PNB) group of companies (Zeti Akhtar, 2008). Furthermore, the inter-connectivity between leadership and decision makings are quite abroad and required a strong mandate from the board / stakeholders.

Nadler (Nadler, 2004) reframed Strategy Management processes into the following 4 categories which are; Strategic Thinking, Strategic Decision Making, Strategic Planning and Strategic Execution. Details of the activities correspond to each category are shown below:



**Figure 2.** Activities of Corporate Strategy

(Source: Adapted from Nadler , 2004)

Based on the above figure (Figure 2), it is quite common that Strategic Decision Making is made by Board Members whereas the remaining three components are cascaded to Top Management Team (C-Level) and Middle Management Team (Senior Managers and Executives). Due to internal policies; most Malaysian GLCs having a non-flat structure for their operation (Putrajaya Committee on GLC High Performance, 2015). These will eventually widen the gap especially in terms of understanding the central ideas for any strategy to execute due to differences in information received.

Top management, business owners and stakeholders across the globe are in the process of analyzing the reasons behind failure of strategy execution processes even for simple strategies within the organization. The assumption that firms will change their current processes and methods according to new strategy often remains unaddressed by the challenges and complexities of the strategy execution phase. Researches on the issue of strategy execution and the role of Board members in it are scarce and very

few frameworks incorporate the methods to address these issues. A successful strategy is the outcome of engagement of effective board members from its initiation phase, till it becomes a practice by all elements of the organization.

The outcomes of a document analysis conducted throughout selected seven Khazanah Nasional companies (Khazanah Nasional, 2015) reveals the following characteristics for an engaged and effective boards:

1. Clear Expectation – Make everybody aware and fully understood what should be delivered. Individual contributions and progress are tracked accordingly. Improvement and alignment could be done ahead of time shall there is a needs for it.
2. Accessible Information – Board members and their top management team are given the information they need to perform their tasks. Resources, materials, equipment, and other requirements easily accessible thus encouraging transparency while eliminating bureaucracy and administrative inefficiencies.
3. Two-ways Communication – Each and every personnel are encourage to share their views with respect to their routine jobs. This is to ensure blind spots are eliminated and weaknesses in board management identified.
4. Utilization of Talents – Board members traditionally were chosen due to their strengths on certain area. A composition of strong board members will lead towards business continuity and sustainability to an organization.

The literature about aligning board members in strategy execution phases emphasizes on harnessing the powers and capabilities of individuals as a team. Performance of board members unit often demands audit, to maintain the organizations repute on a wide platform, among stakeholders, clients and business owners. Board members' performance audit process is an assessment process comprising evaluation of board in terms of, board's self-evaluation, a separate committee evaluating the board, a non-board committee evaluation as well as incorporating an external consultant or audit team to provide an unbiased, independent view on board's performance as a team of leaders. Overcoming the challenges of strategy execution, exuding potential and exceptionally strategic strong board exacts and strengthens organizational growth not for a short span but in a long run.

## 5. Conclusion / Implications

Many companies that start well find it difficult to sustain high performance after few years. Ineffective governance appears to be one of the contributing factors (Schmidt & Brauer, 2006). Apart from defining the firm's strategies, the role of board's engagement from a legal perspective is to include the review and monitoring of strategy (Taylor & Stiles, 2002). In a wider perspective, board's engagement is expected at different stages of strategic planning processes, such as defining the business, outlining mission and vision, understanding the environment followed by selecting and implementing a set of strategies (Hilmer, 1998; Tricker, 1994; Zahra & Pearce, 1989)

With focus on the growth of the organization, Board members are responsible to engage in decision making to empower the organization to adapt itself to changes required by a strategy (Goodstein, Gautam, & Boeker, 1994). Long term performance of an organization is also governed by organization-wide resource management & allocation (Judge & Zietnam, 1992). Significant debates and researches have been conducted to define the strategy visualization and similar responsibilities of the Board, but lack of proven framework often instigates management to explore how Boards fulfil this responsibility (Taylor & Stiles, 2002). Engagement of Board members post strategy analysis and formulation in the process of decision making at different levels is a continual process / activity (Mcnulty, 1995; Zahra & Pearce, 1989). Thus although there exist researches that highlight the need for Board members to engage in strategy execution process, there lacks consensus on present trends about the same, and methods and ways in which members can participate in execution of strategy.

It is expected that the researcher will get to understand critical success factors for strategy execution for the benefit of both Malaysian academia and industry. This will also give the opportunity to understand how underlying elements are affecting critical success factors at the time of strategy execution management. The potential role of the Board in the success of strategy execution will be revealed. This study will eventually formulate a successful strategy execution management methodology or system in the Malaysian service sector is crucial to ensure competitive advantage in the global service network and to realize targets set by the Malaysian government for 2020.

Execution is the result of thousands of decisions made every day. There are four fundamental building blocks management can consider influencing those actions - clarifying decision rights, designing information flows, aligning motivators, and making changes to structure. In efforts to improve performance, most organizations opt for structural changes. Structural change could help organization to improve execution. In fact, quantitative analysis shows that actions related to right decision and information are far more important, about twice more effective than the other two building blocks.

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