

# **FACTORS AFFECTING SOCIAL SUSTAINABILITY PERFORMANCE AMONGST MALAYSIAN MANUFACTURING COMPANIES**

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## **ABSTRACT**

Malaysia is among 192 countries that adopted the 2030 agenda for sustainable development to move towards more sustainable, resilient and inclusive growth through strengthening the social, economic and environmental aspects of sustainable development. However, among the three pillars, social sustainability is often disregarded than economic and environmental. Social sustainability is an aspect of sustainability or sustainable development that encompasses human rights, labour rights, and corporate governance. It brings a better environmental and positive influence on the employees working in the industry. This study aims to investigate the relationship between diversity practices, environmental practices, product responsibility and, safety and health practices on social sustainability performance in the manufacturing industry in Malaysia. A total of 384 questionnaires were distributed amongst manufacturers with multinational corporation status based on the purposive sampling method. Eighty-two usable questionnaires had been received and analysed. The findings of this study revealed that only diversity practices and safety and health practices significantly influenced the social sustainability performance. Future research is suggested to verify the significance of these factors as well as other potential factors in different industries for better understanding and knowledge of the social sustainability issues in Malaysia.

**Keywords:** Diversity, Environmental, Social, Sustainability, Performance

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## 1. INTRODUCTION

Sustainability has become one of the focuses of the 11th Malaysian Plan as a driving policy of national development efforts. Besides that, Malaysia is among 192 countries that adopted the 2030 agenda for sustainable development to move towards more sustainable, resilient and inclusive development, with 17 Sustainable Development Goals (SDGs) through strengthening the social, economic and environmental aspects of sustainable development. A growing number of manufacturers globally are figuring out considerable benefits from sustainable business practices. Many scholars have highlighted the importance of managing sustainability issues by considering the economic, environmental and societal aspects to improve the firm's efficiency and competitiveness for success and support continuous growth (Awan, 2019; Habidin et al., 2015). However, among the three pillars mentioned, social sustainability is frequently disregarded, as debates about sustainable development often focus on environmental or economic aspects (Woodcraft et al., 2011; Vafadarnikjoo et al., 2020).

Social sustainability is an aspect of sustainability or sustainable development that encompasses human rights, labour rights, and corporate governance. It brings a better environment and positive influence on the employees working in the industry. Social sustainability is also concerned with managing social resources involved with a relationship, people's skills and abilities, and social values (Sarkis, 2010). Adverse publicity, especially surrounding social issues and workplace communities, can cause reputational damage affecting sales and profitability.

Concerning this, businesses should be concerned about making financial gains and consider environmental and societal factors, which are part of social sustainability. However, companies seemed to have a limited or narrow perspective on how to perform corporate social sustainability. Most firms deliver social sustainability through donations to unfortunate people, such as the poor and orphans (Zainoddin et al., 2018). However, other than donations, diverse social sustainability can be performed, such as product responsibility and diversity practices.

Bursa Malaysia has mandated social responsibility reporting for businesses in Malaysia starting in 2019 (Chua, 2018). Although it is not mandatory for firms to report their corporate social activities, the commission has urged businesses to submit and produce business review reports regarding their social sustainability as an effort believed to add value to business sustainability. This suggests that social sustainability has been given priority by the Malaysian government, in line with the government's aspirations to achieve sustainable development goals (SDG) by the year 2030. Nevertheless, there is a significant difference in the stakeholders' understanding and awareness of the actual situation due to the companies' low commitment to executing social sustainability (Shari & Soebarto, 2012). Social sustainability is still absent from the manufacturer's operational activities in developing countries and is considered less important than economic and environmental sustainability (Sundström et al., 2019). This circumstance exacerbates the difficulties of reaching social sustainability to be more acceptable in Malaysia, especially among industry players.

Furthermore, it was discovered that studies on social sustainability remain scarce (Mani et al., 2018). Therefore, there is a need to fill the gap regarding managing social issues in the supply chain (Yawar & Seuring, 2017). Hence, there is little information about social sustainability practices and achievements, especially in Malaysia. Therefore, this study has aimed to examine the effect of the determinants of social sustainability on social sustainability performance. The findings are imperative for understanding social sustainability by considering the four influenced factors known as diversity practices, environmental practices, product responsibility and safety and health practices. Furthermore, the knowledge of the relationship will contribute to appropriate social sustainability policy measures and approaches in which the industrial players can contribute to the quality of life of millions worldwide.

This study has been structured with a literature review, followed by the research model and hypotheses development. The methods used are discussed in the next section. Finally, trailed by the discussion and implication, the conclusion summarises the key points, with the suggestion for future research presented in the last part of the paper.

## **2. LITERATURE REVIEW**

### **2.1. *Social Sustainability Performance***

Social sustainability is one of the three pillars in the firms' three bottom-line sustainability approaches. Social sustainability is focused on maintaining and preserving the preferred ways of living and protecting particular socio-cultural traditions (Vallance et al., 2011). According to the authors, there are three types of social sustainability. The first is 'development sustainability.' It addresses the issue of poverty and inequity. Next is 'bridge sustainability,' which highlights the behaviour change to achieve a bio-physical friendly environment. Moreover, the last is 'maintenance sustainability.' It focuses on the context of social and economic change by stressing the preservation of socio-cultural patterns and practices (Zainoddin et al., 2020).

Social sustainability performance advocates the degree to of a company has converted its social objectives into actual practice, such as decent working environments, health and safety, rapport with workers, well-being, diversity, basic rights, non-discriminatory, community engagement, and charity (Alsayegh et al., 2020). Businesses accomplish continuous improvement because they emphasise that individuals must develop or enhance organisational policies or processes (Shaharudin et al., 2018). It is not only improving the firm performance, but it will also reduce costs and increase the market share (Klassen & Vereecke, 2012; Rao & Holt, 2005). Carter and Jennings (2004) discovered that the firms' performance is enhanced when the firms decide to adopt social sustainability practices. In addition, the applied social sustainability performance indicators are one part of the overall sustainability measures, which aims at presenting a balanced and holistic view of the manufacturing operations-level sustainability performance, besides the economic and environmental sustainability. Neglecting social aspects of sustainability, such as addressing diversity practices, may cause complications in enticing a new labour force (Sundström et al., 2019).

### **2.2. *Diversity Practices***

In the era of the 21st century, the issue of diversity happens in every corner of the world. This includes the national level, business level, and even at the school level. The predominant issues are gender inequality, religion, ethnicity, rural and urbanites, and skin colour. Diversity has become a severe issue with the increasing number of immigrants and globalised business activities. Diversity practices are the dimension to differentiate a demographic of groups and people from one another. The main aim of these practices is to improve and sustain and bond the dissimilarities between the organisational members and dimensions (Olsen & Martins, 2012). Shen et al. (2009) found that many companies were biased towards female employees and ethnic minorities in recruitment and promotion. The previous study indicated significant positive relationships between diversity practices and firm social sustainability (Richard et al., 2007; Mani et al., 2018). Thus, this study has hypothesised that:

*H1: Diversity practices have a significant effect on social sustainability performance.*

### **2.3. Environmental Practices**

Environmental practices are carried out to preserve the natural resources and energy of the non-polluting goods, processes, and systems for consumers, communities, and industries (Glavič & Lukman, 2007). Therefore, employees' engagement in environmental practices is vital and described in the organisational rules and policies (Boiral, 2009). Furthermore, environmental benefits are essential for social sustainability (Broman & Robèrt, 2017). This includes the positive outcome of social benefits from increasing human and social capital (Delai & Takahashi, 2013). In addition, green behaviour is one of the strategies for a company to achieve social sustainability performance (DuBois & Dubois, 2012). This is because environmental practices can benefit social benefits by increasing human and social capital (Moser et al., 2001; Delai & Takahashi, 2013). Hence, this led to the following hypothesis.

*H2: Environmental practices have a significant effect on social sustainability performance.*

### **2.4. Product Responsibility**

Firms are responsible for the environmental impact of the whole product system along the product lifecycle, which includes the upstream and downstream effects (White et al., 1999). Product responsibility is initiated by developing an environmentally friendly product with a continual improvement cycle embedded with process innovation even at the end of the usage (Kralj & Markic, 2008). It involves several aspects or practices, including reporting if the product manufactured or service provided may directly affect the customers' health, safety, and privacy (Galego-Álvarez et al., 2014). Mani et al. (2018) have identified that product responsibility is one of the social sustainability dimensions. They found that product responsibility issues, such as using hazardous and sub-standard materials, are common in Indian manufacturing and stressed that they are essential for businesses. Hence, this led to the following hypothesis.

*H3: Product responsibility has significant effects on social sustainability performance.*

### **2.5. Safety and Health Practices**

Safety and health practices are about work and life safety within the environment and acting when an emergency occurs at the workplace or surroundings (Mohamed Taufek et al., 2016). Many companies have considered their employees' safety and health as their social responsibility. To achieve sustainability objectives, firms should intensify their prevention efforts, planning and controlling risks (Lee, 2018). Montero et al. (2009) emphasised that companies must place great concern on their employees, from the management to the lower-ranking level, to operate effectively (Górny, 2017). Concerning this, occupational health and safety should be considered a company's social responsibility. Thus, this study has hypothesised that:

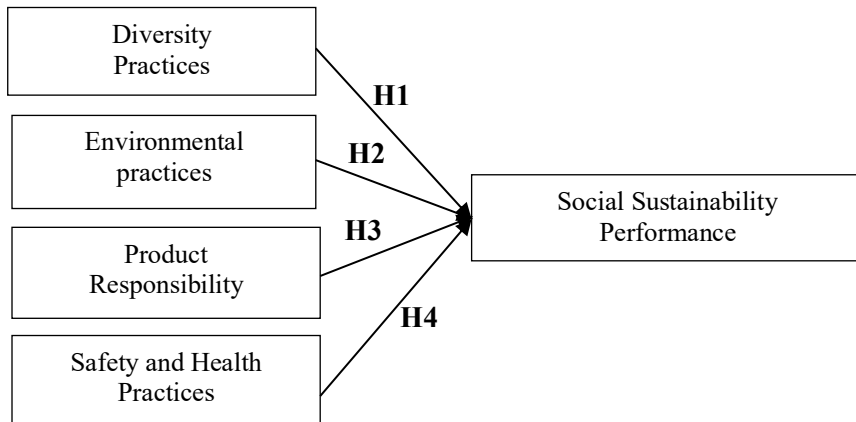
*H4: Safety and health practices have a significant effect on social sustainability performance.*

### **3. RESEARCH MODEL AND HYPOTHESIS DEVELOPMENT**

The Resource-based View Theory (RBV) states that firms could achieve sustainable competitive advantages by building and exploiting resources and capabilities (Wernerfelt, 1984). However, specific criteria prerequisite these resources for firms to gain a sustainable competitive advantage. These include the factors of valuable and non-substitutable (Dierickx & Cool, 1989; Barney, 1991), rare and specific resources available to a particular firm (Reed & DeFillippi, 1990; Barney, 1991), tacit resources, and socially complex competitors are difficult to imitate (Teece, 1987; Winter, 1987). In addition, the resources and capabilities will determine how the activities, routines, or business processes (Porter, 1991) can be performed to increase the firm's performance. Likewise, RBV emphasises human development as the competitive source to achieve employees' sustainable performance (Zailani et al., 2015).

On the other hand, the Natural-Resource-based View Theory (NRBV) encompasses the inclusion of environmental perspectives, which according to Hart (1995), was inadequately addressed in the RBV theory in determining the future resource and capability to contribute to the firm's performance and competitive advantage. This is because the RBV theory has excluded the limitations that firms may encounter in dealing with the environment, which is considered the obstacle in providing the critical sources (environment) to boost the firm's performance and competitive advantage.

As such, the study utilised the foundation of the RBV and NRBV as the basis of the relationships which congregate amongst the variables. The unique practices derived from the firm's resources (diversity, environmental, product responsibility, and safety and health practices) could boost social sustainability performance. Diversity, environment, product responsibility, and safety and health practices are the determinants that can influence social sustainability performance, either through the direct or indirect impacts of manufacturing operations on the stakeholders and surrounding society. The relationships between four determinants and the social sustainability performance as postulated in the research hypotheses and how the two theories grounded the current study are summarised in Figure 1.

**Figure 1: Theoretical Framework**

As shown in Figure 1, this study proposes that diversity, environmental, product responsibility, and safety and health practices are significant in attaining the firm's triple bottom line performance. The study argues that firms with a deficiency in these practices may experience difficulties achieving social sustainability performance due to a lack of social, economic and environmental responsibilities practices, either internally or externally. On the contrary, firms with significant sustainable practices are likely to achieve social sustainability performance, which eventually facilitates the firm's survival, competitiveness and well-being of the local community (Alsayegh et al., 2020; Sundström et al., 2019).

## 4. METHODOLOGY

### 4.1. Research Design

This study was quantitative and explanatory research in nature. This study aimed to examine the relationships between diversity practices, environmental practices, product responsibility, and safety and health practices on social sustainability performance in the manufacturing industry in Malaysia. This study was conducted in a cross-sectional setting, with the unit of analysis being the individual. The survey was carried out for three months by distributing the questionnaires through the HR Department of the manufacturing firms from January 2019 until March 2019.

### 4.2. Sample Profile

The study population consisted of employees working with manufacturing firms with multinational company (MNC) status in Malaysia. The MNCs were selected due to their international practices, reflecting better concern for their employees. This was deemed appropriate, as MNCs' social practices are superior to the other types of firm ownership. To solicit participation, an official invitation letter was sent to thirty MNCs out of the total ninety-one MNCs in Malaysia registered in 2020 (NST Business, 2020). However, only ten MNCs accepted the request to participate in the data collection activities. They consisted of four companies in Penang state, three in Selangor state

and three in Johor state. Purposive sampling was used, with the target respondents being managers from various departments in the ten selected MNCs across Peninsular Malaysia. In this context, 384 questionnaires were distributed based on the sampling frame list, with 85 usable questionnaires (22 per cent) having been received and analysed. In this case, the power in the 85 samples was assessed using G\*Power version 3.1.9.4 (Faul et al., 2009). By utilising G\*Power, the results revealed a significance level ( $\alpha$  level) of 0.05 generated power of 0.803, suggesting an acceptable value range of the sample power (above 0.80) in the present study (Chin, 2001). The results signified that the sample size was adequate to ascertain the significant effects and could reject the null hypotheses (Faul et al., 2009). The questionnaires were adapted from the previous study, and Smart-PLS Version 3 was used to analyse the data.

Based on the demographic data analysis, the majority of the respondents were managers (75%), attached to the Production Department (39%), with subordinates between 50-70 employees, working experience between 11-15 years (41%), and had served current their companies for between 5-10 years (45%). In addition, most of them were degree holders (69%). Therefore, with the majority of the respondents being managers, an adequate number of subordinates between 50-70 employees, and having working experience between 11-15 years; hence, the profiling characteristics signified the applicable demographic requirements for the study.

#### 4.3. Assessment of the Measurement Model

In the measurement model, the reflective constructs assessed the individual item reliability, internal consistency of all the scales, and discriminant validity. The results shown in Table 1 show that all five variables have successfully achieved the threshold with factor loadings above 0.6 (0.674 – 0.941). Furthermore, CR values were accepted and fell in the range from 0.811 to 0.953 (above 0.7), and AVE values in the range from 0.527 to 0.837 (above 0.5), respectively (Hair et al., 2010).

**Table 1:** Reliability Measures

Latent Variable	Item	Factor Loading >0.6	Composite Reliability >0.8	Average Variance Extracted (AVE) >0.5
Social Sustainability	B1	0.793	0.869	0.631
	B2	0.888		
	B3	0.881		
	B4	0.674		
Diversity Practices	C1	0.758	0.811	0.527
	C2	0.793		
	C3	0.827		
	C4	0.768		
Environmental Practices	H1	0.883	0.899	0.691
	H2	0.803		
	H3	0.804		
	H4	0.796		

**Table 1:** continued

<b>Product Responsibility</b>	G1	0.919	0.927	0.761
	G2	0.849		
	G3	0.871		
	G4	0.850		
<b>Safety and Health Practices</b>	D1	0.939	0.953	0.837
	D2	0.854		
	D3	0.922		
	D4	0.941		

The discriminant validity was tested using the Fornell-Lacker Criterion Analysis. The results in Table 2 showed that the square root of the AVE for each construct was higher than the inter-correlations between the constructs. Thus, the results signified that the constructs had achieved discriminant validity (Hair et al., 2017).

**Table 2:** Discriminant Validity

	<b>Diversity Practices</b>	<b>Environmental Practices</b>	<b>Product Responsibility</b>	<b>Safety and Health Practices</b>	<b>Social Sustainability Performance</b>
<b>Diversity Practices</b>	<b>0.726</b>				
<b>Environmental Practices</b>	0.641	<b>0.831</b>			
<b>Product Responsibility</b>	0.501	0.677	<b>0.873</b>		
<b>Safety and Health Practices</b>	0.401	0.554	0.666	<b>0.815</b>	
<b>Societal Responsibility Performance</b>	0.635	0.756	0.565	0.472	<b>0.842</b>

*Notes:* The diagonals represent the square root of the AVE, whilst the other entries represent the correlations between the constructs.

#### 4.4 Assessment of the Structural Model

The bootstrapping procedure was applied to the dataset with 5,000 re-samples (n=82) in the structural model. The blindfolding test was carried out to examine the model's prediction capability. The blindfolding test results indicated that the Q2 values were above 0; thus, the model had achieved appropriate predictive capabilities.

**Table 3:** Path Analysis

<b>Hypotheses</b>	<b>Path</b>	<b>Beta</b>	<b>T Statistics</b>	<b>Decisions</b>
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**Table 3:** continued

<b>H1</b>	Diversity Practices -> Social Sustainability Performance	0.236	2.192	Supported
<b>H2</b>	Environmental Practices -> Social Sustainability Performance	0.229	1.530	Not Supported
<b>H3</b>	Product Responsibility -> Social Sustainability Performance	0.197	1.578	Not Supported
<b>H4</b>	Safety and Health Practices -> Social Sustainability Performance	0.223	2.033	Supported

*Notes:* Sig. level: \*\*\* $p < 0.001$ , \*\* $p < 0.01$ , and \* $p < 0.05$ .

Table 3 presents the results of the path analysis. Based on the analysis, the path coefficient (Beta) indicates the nature of the relationship between the variable tested and the value range between -1 to +1. All values were near 0, which signified a weak relationship and, in some cases, may violate the significant relationship assumption. Thus, to confirm the significant assumption, the T values were observed. The results showed that H1 and H4 indicated a significant relationship since the T values were greater than 1.96 at the significance level of 95%, while H2 and H3 were not significant. Therefore, two hypotheses were accepted – H1 ( $\beta=0.236$ ,  $p<0.05$ ) and H4 ( $\beta=0.223$ ,  $p<0.001$ ). The results indicated that diversity, safety, and health practices positively connected with social sustainability. However, two hypotheses were not supported – H2 ( $\beta=-0.229$ ,  $p>0.05$ ) and H3 ( $\beta=-0.197$ ,  $p>0.05$ ), where environmental practices and product responsibility had not significantly influenced social sustainability.

#### 4. DISCUSSION

This study aimed to examine the diversity practices, environmental practices, product responsibility and safety and health practices on social sustainability performance in the manufacturing industry in Malaysia. The results indicated that diversity practices significantly impacted the firm's social sustainability performance. The findings also brought to light the importance of diversity in Malaysian firms and stressed that equal opportunities had been given to every employee, regardless of race or gender. This scenario is imperative, especially in the context of a multicultural workforce in Malaysia (Abu Bakar et al., 2018).

In addition, the study also found that there was a significant positive relationship between safety and health practices and social sustainability performance. This suggested that occupational health and safety had been given as one of the companies' priorities toward social sustainability performance. This circumstance clearly showed the companies' compliance with Malaysia's occupational health and safety laws (Che Hassan et al., 2007).

Nonetheless, the results indicated that there was an insignificant influence between environmental practices and the firm's social sustainability performance. This finding has proven the limited environmental practices conducted by firms in Malaysia, especially when involved in sustainable environmental practices that concern the elements of humans internally and externally. The focus of manufacturing firms is higher on economic sustainability than social sustainability (Sundström

et al., 2019). The study also found an insignificant influence of product responsibility on social sustainability performance. The results signified the less proactive efforts to recover or recycle end-of-life products in Malaysia, let alone returned products with significant residual value (Shaharudin et al., 2017; 2019).

The findings have contributed to the underpinning of RBV and NRBV Theory through the basis of diversity and safety, and health practices influence manufacturing firms' social sustainability performance. With such unique diversity practices and the safety and health of the firm's resources, the firm's ability to increase its social sustainability performance can be easily facilitated. On the other hand, the firm's environmental and product responsibility practices were found to adversely contribute to the performance of the manufacturing quality engagement with its stakeholders. Understanding the effects of RBV and NRBV Theory suggested that the manufacturing firms in Malaysia need more efforts to intensify the firm's environmental and product responsibility practices.

Significantly, this study explicitly deliberated the issues revolving around the manufacturers' concerns about social sustainability and how it may affect their performance. The findings show that by developing a better understanding of social behaviour, the manufacturers can better understand the factors of social sustainability towards firm performance. The knowledge gained can assist manufacturing firms in improving their social sustainability and eventually enhance their performance.

As such, this study has two-fold implications. First, the study has clarified the problems of social sustainability amongst manufacturing companies in Malaysia. Second, this study determined the determinants towards social sustainability, which has yet to be thoroughly examined by previous studies, especially in Malaysia. The findings provided evidence that the manufacturing firms were sluggish in environmental and product lifecycle management, which led to insignificant effects on the companies' social sustainability performance. The lack of social sustainability occurred because the companies reduced focus on the environmental and product lifecycle management issues due to the profound increase in consumer demand (Shaharudin et al., 2019). This has created a narrow scope of the manufacturing firms' practices with a small contribution to the human factor rather than purely the environmental science factors. Moreover, most of the manufacturing firms in Malaysia utilise the conventional manufacturing approaches with little consideration for product responsibility, particularly on the product recovery efforts of the end-of-life (EoL) products to reduce the dependencies on natural resources in the circular economy (Shaharudin et al., 2015).

## **5. CONCLUSIONS**

This study has scrutinised the influential determinants which impact the social sustainability performance in the manufacturing industry with MNC status of ownership in Malaysia. The results revealed that diversity, safety, and health practices significantly influenced social sustainability performance. However, environmental practices and product responsibility were found to have insignificantly impacted social sustainability performance. The findings demonstrated the failure of the manufacturing firms to focus on environmental practices and product lifecycle management issues, which eventually led to deficiencies in achieving social sustainability performance.

Social sustainability mitigates risk. Therefore, inadequate social sustainability practice harms both brand and product quality. The findings of this study demonstrate practical implications by providing knowledge and understanding to improve social sustainability performance, in line with the government's efforts to achieve SDG by the year 2030. With minimal information and scant literature available, the present study attempts to provide a base for future researchers to examine any aspects of social sustainability performance. Future research is suggested to verify the significance of the tested determinants as well as other potential factors in different industries for better understanding and knowledge about the social sustainability issues in Malaysia.

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