

THE EFFECT OF ENVIRONMENTAL CSR ON BRAND REPUTATION AND  
CORPORATE PROFITABILITY IN SERVICE INDUSTRY

NGAN MEI LENG

UNIVERSITI TEKNIKAL MALAYSIA MELAKA

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CORPORATE PROFITABILITY IN SERVICE INDUSTRY**

**By**

**NGAN MEI LENG**

I hereby acknowledge that this paper has been accepted as a part fulfilment for Bachelor  
of Technology Management (High Technology Marketing) with Honour

Signature: .....

Supervisor: DR.NORHIDAYAH BINTI MOHAMAD

Date: .....

Signature: .....

Evaluator: DR. FARARISHAH BINTI ABDUL KHALID

Date: .....

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NGAN MEI LENG

Laporan ini dikemukakan sebagai  
memenuhi sebahagian daripada syarat penganugerahan  
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## DECLARATION

“I admit that this report is a product of my own work except the citation for each which I have mentioned the sources.”

Signature: .....

Name: .....

Date: .....

## **DEDICATION**

First of all, I would like to say thank you to my parents which is Ngan Ying Chong and Yiung Swee Chuo. I am great that my parents are always giving me the strength and courage in study and complete the final year project. Besides that, they will support me on all the things I done. I am grateful to have them as my parents.

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## ABSTRACT

Concept of environmental Corporate Social Responsibility (CSR) has been widely discussed and implemented in the global level. The effect of environmental CSR on brand reputation and corporate profitability need to be determine and tested. Thus, the purpose of this study is to determine the effect of environmental CSR on brand reputation and corporate profitability. The sample of this study is companies in service industry which service industry need to perform environmental CSR in their business to reduce the climate change and utilizes the use of natural resources. The method use in this study is quantitative method and questionnaires are delivering to companies in service industry to collect data. Questionnaire includes the environmental CSR activities concern on the customer awareness of CSR issues, customer preference and purchase intention as well as customer willingness to pay high price for the products to test on the effect on brand reputation and corporate profitability. The data collected is analyzed by IBM SPSS and result can be gain. Results show that environmental CSR activities – climate responsibility, natural resource utilization and consumer awareness of CSR issues has effect on brand reputation whereas environmental CSR activities – natural resource utilization and willingness to pay high price has effect on corporate profitability. Environmental CSR activities help to boost brand reputations when the brand image is good, high brand loyalty and awesome brand satisfactions. Customers are more willing to purchase products or services that are environmental friendly compared to conventional products or services. Capitals and investments in environmental CSR activities are needed to increase the reputations and profitability of the companies.

## ABSTRAK

Konsep Tanggungjawab Sosial Korporat alam sekitar (CSR) telah dibincangkan secara meluas dan dilaksanakan di peringkat global. Kesan CSR alam sekitar ke atas reputasi jenama dan keuntungan korporat perlu ditentukan dan diuji. Oleh itu, tujuan kajian ini adalah untuk menentukan kesan CSR alam sekitar ke atas reputasi jenama dan keuntungan korporat. Sampel kajian ini adalah syarikat-syarikat dalam industri perkhidmatan kerana industri perkhidmatan perlu melaksanakan CSR alam sekitar dalam perniagaan mereka untuk mengurangkan perubahan iklim dan penggunaan sumber semula jadi. Kaedah digunakan dalam kajian ini adalah kaedah kuantitatif dan soal selidik telah menyampaikan kepada syarikat-syarikat dalam industri perkhidmatan untuk mengumpul data. Soal selidik merangkumi aspek CSR alam sekitar iaitu kesedaran pelanggan isu CSR, pilihan pelanggan dan niat pembelian serta kesediaan pelanggan untuk membayar harga yang tinggi untuk produk untuk menguji kesan ke atas reputasi jenama dan keuntungan korporat. Data yang dikumpul dianalisis menggunakan perisian IBM SPSS. Hasil kajian menunjukkan bahawa aktiviti CSR alam sekitar - tanggungjawab iklim, penggunaan sumber semula jadi dan kesedaran pengguna mengenai isu-isu CSR mempunyai kesan ke atas reputasi jenama manakala aktiviti CSR alam sekitar - penggunaan sumber semula jadi dan kesanggupan untuk membayar harga yang tinggi mempunyai kesan ke atas keuntungan korporat. Aktiviti CSR alam sekitar membantu syarikat untuk meningkatkan reputasi jenama dengan imej jenama yang baik, kesetiaan jenama dan kepuasan terhadap jenama. Pelanggan lebih bersedia untuk membeli produk atau perkhidmatan yang mesra alam sekitar berbanding dengan produk atau perkhidmatan konvensional. Capitals dan pelaburan dalam aktiviti CSR alam sekitar diperlukan untuk meningkatkan reputasi dan keuntungan syarikat.



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## CHAPTER 1

### INTRODUCTION

#### 1.1 Introduction

The grouping of corporate social responsibility by businesses, with regard to sustainable development topics, primarily is motivated by political pressure advancement in laws and a stand from civil humanity through boycotting campaigns for instance (Cochet and Vo, 2013).

The addition of environmental responsibility as an essential constituent of businesses broader social responsibilities have been appeared and highly highlighted (Moyeen and West, 2014). According to the Communication From The Commission To The European Parliament, The Council, The European Economic And Social Committee And The Committee Of The Regions (2011) for example, states that “to fully encounter their corporate social responsibility, firm should have close partnership with their stakeholders to involve in a process to assimilate environmental, social, ethical, consumer concerns and human rights into their business operations and core tactic.

The risk of bad publicity has prompted organizations to accept and encourage corporate social responsibility, stressing that companies could be good by donating to the economic and social development as well as protecting the environment without the coercive push of organizations, society and governments (Jenkins, 2005).

## 1.2 Background of Study

Ecological distresses first rose during 1970s and 80s. For example the possessions of pollution and damage of the rainforest lead to a gratitude that something had to be done to change the way of society using the planet properties. In the year of 1992, Earth Summit has been created at Rio, Italy. In the year of 2000, Earth Summit attains greater success in the World Summit for sustainable development where everyone has its own character in the society. Managements need to create laws that is fair to all the people, business need to conduct social responsibility activities and consumers has the responsibility to figure out the answer to decrease the waste to save the surroundings (Toyne, 2015).

The stages of complexity around the globe continue to rise among stakeholders, firms businesses will come under increasing pressure to find ways to assembly ethical prospects as well as contributing in sustainable growth. The zone in which a corporation's sustainability attitude can be interconnected to stakeholders is in the formation of a corporate social responsibility (CSR) "platform", as mirror image of the corporation's alignment to specific stakeholder matters (Planken, Nickerson and Sahu, 2013).

Numerous stakeholders such as media, civil society, government and international development organizations have applied a wide range of programs to stimulate awareness and acceptance of CSR by local trades (Moyeen and West, 2014). In the rouse of corporate dishonors, awareness of environmental problems and social discrimination, the demands on companies are increase to act responsibly and justification for issues beyond financial proportions and shareholder prosperity steadily increases (Blombäck and Scandeliu, 2013).

Environment protection is the most outstanding issues at the global level among the three domains of CSR because of the high-profile public anxieties over threats of global warming and climate change (Liu, Garcia and Vredenburg, 2014). CSR initiatives

can contribute to the creation of a positive brand image which may in turn help distinguish the company's products or services (Hsu, 2011).

The company's economic benefits from CSR have been documented in the link to consumer's positive product and brand assessments, brand choice and brand recommendations (Marin and Ruiz, 2007). Chi-Shiun et al., (2010) stated that stakeholder theory and CSR are connected to profitability through the assumption that if CSR is executed, companies improve their relationships with stakeholders and this increases profitability.

### **1.3 Problem Statement**

Due to impressive economic expansion, vast stress on nature and the environment has been deliberated. One of the serious environmental issues in Malaysia is climate change (Nationmaster.com, 2015). The change in climate will be the projected rises in the frequency and severity of extreme weather actions – storms, floods, droughts and heat waves (Moriarty and Honnery, 2014).

Most of the CSR studies conducted so far have been in the background of developed countries such as Western Europe, the USA and Australia and little is known about the exercise in ex-colonial, small and emerging nations (Jamali and Mirshak, 2006).

Illuminate the elements is needed for CSR investments, which enables policy makers who want to inspire firms to increase their CSR investments and to deliver ideas for firm managers who want to control the CSR development (Nakamura, 2015).

Research in the field is still limited and companies can benefit from further intuition on how consumers evaluate brands and companies in regards to CSR and how insights of brands as more or less sustainable improvement (Blombäck and Scandelius, 2013).

Therefore, this research is aim to regulate the effect of environmental CSR to corporate/brand reputations and corporate profitability. Individuals are particularly worried with how environmental awareness can influence corporate brand function as a specific CSR activity (Hillestad, Xie and Haugland, 2010).

#### **1.4 Research Questions**

The purpose of this research is to determine the relationship of environmental CSR, corporate/brand reputation and corporate profitability.

The research questions are as below:

- i) What is the main effect of environmental CSR on brand reputation?
- ii) What is the main effect of environmental CSR on corporate profitability?

#### **1.5 Research Objectives**

To answer the research questions, several objectives are determined to produce research objectives.

The research objectives are as below:

- i) To identify the main effect of environmental CSR on brand reputation.
- ii) To determine the main effect of environmental CSR on corporate profitability.

## 1.6 Scope of Study

This study is mainly focus on environmental corporate social responsibility. Environmental CSR is about the activities that accomplish by the company to the environment. Lack of natural resources on the earth is the biggest issues faced by the company nowadays. A series of activities have been done by the company to minimize the effect of human behavior and actions towards environment. Sustainability development is to reduce the harm to the environment and keep the resources for our next generation.

Environmental CSR will influence the corporate brand reputation which customer will have a look on what the company has been done for the environment and make a decision whether to purchase the particular company products. Products that are environmental friendly are more expensive because it contained less harmful chemicals on the products through a whole new, innovative manufacturing process. Through the sold of green products, the company able to gain more profit than others competitors. This shows that the environmental CSR activities have clearly influences the company profitability.

The research data was collected in Malaysia service industry due to lack of study regarding the effect of environmental CSR on brand reputation and corporate profitability in Malaysia.

## 1.7 Significant of Study

The purpose for conduct this research is to understand and identify the significant effect of environmental CSR on brand reputation and corporate profitability. Through the study on previous research, researchers on country Malaysia have conducted less research and generate less idea on the environmental CSR and its effect to the brand reputation and corporate profitability. So, researcher needs to investigate the environmental activities that have been accomplished by Malaysia Company and the effect of environmental CSR to the company in Malaysia.

From the past study of environmental CSR that have been done by the expatriate's populations, it shows that most of the past studies only focus on the conceptual theories but not on the research area. Researcher need to have clear understanding on the effect of environmental CSR on the brand reputation and company profitability in Malaysia. So, this research is mainly concern on the environmental CSR activities and its effect on the company.

## **1.8 Limitations**

The limitation of this research is the small sample size and focus on service industry only. Due to the small sample size and only focus in service industry, researcher is difficult to ensure the data collected are accurate and reliable. To increase the reliability of the data, researcher will go to different brands company to collect the data which researcher can gain more information about the environmental CSR as well as the brand reputation and corporate profitability.

Further research is needed to continue study on the effect of environmental CSR on brand reputation and corporate profitability in Malaysia. There is still lacks of research and evidence on the environmental CSR in Malaysia which the CSR is still a new concept that need to explore by the researchers at Malaysia to better understand and utilizes the theories of environmental CSR to local companies.

## CHAPTER 2

### LITERATURE REVIEW

#### 2.1 Background of Environment

Rise of awareness on pollution and environmental issues makes people recognized that the formation of a strong and value driven corporate brand through green innovation may lead to admiration from external elements, strong identification and provision (Hillestad, Xie and Haugland, 2010).

According to Communication From The Commission To The European Parliament, The Council, The European Economic And Social Committee And The Committee Of The Regions (2011), for example, states that “enterprises should have in place a process to assimilate environmental, social, ethical, consumer anxieties and human rights into their business processes and core strategy in close cooperation with their stakeholders to fully meet their corporate social responsibility”.

Vital role that CSR could play in nurture sustainable development, international donor organizations, the government, civil society and the media have, in recent years has been involved in various hard work to assist local businesses to participate in CSR initiatives, particularly those that are able to dedicate to sustainable growth (e.g. environment and social related CSR) (Moyeen and West, 2014).