

**SOCIAL ROLE ISSUES OF BUSINESS
IN MALAYSIAN SOCIETY**

*An Inaugural Lecture delivered
at the University of Malaya
on Wednesday, August 27, 1986*

by

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Kuala Lumpur,
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SOCIAL ROLE ISSUES OF BUSINESS IN MALAYSIAN SOCIETY

1. INTRODUCTION

The current period of economic recession and despondency is a suitable time to talk about the responsible role of business in this country. There has been a lack of publicity and commitment given by the captains of industry in the Malaysian business community concerning the leadership role that they should take on matters relating to corporate social concern. At this juncture, I wish to state clearly that the views that I present here are my own, and are not necessarily those of my Alma Mater and my employer, the University of Malaya.

What is a business? We can refer to any organization with a profit motive, such as a sole proprietorship, a partnership or an incorporated public or private limited company, as a business. Such organizations can be small, like the sole proprietorships, or they can be large like the corporations. This presentation will refer to both small and large businesses.

The term, social role, is used synonymously with the term, social responsibility, which is more well known. Social responsibility can also be associated with social challenge, social commitment, social concern, social programmes or concern with public problems, and social conscience (Steiner, 1975). However, a clearer picture concerning what social responsibility encompasses can be obtained by putting up a case to support the evolution of the role of business from the traditional to the modern.

2. THE TRADITIONAL ROLE OF BUSINESS

According to Adam Smith, business exists for the sole purpose of maximizing profits for its owners and shareholders. In the endeavour to maximize profits, every business entity therefore seeks to fulfil its own selfish

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interests. However, arguments have been offered to support the claim that the pursuit of self interest, engendered by the selfish desire for profits, can bring about, unintentionally in the long run, the promotion of public interest. The Invisible Hand of competition compels every business entity to reduce costs and to operate efficiently. In this way, public interest is served.

The contention that the sole purpose of business is to maximize profits emphasises that the business of business is solely business. If there is to be a social responsibility of business, it is the responsibility to increase business profits. The result of the pursuit of the self-interest motive of profit maximization, the push for economic efficiency, the production of goods and services of progressively better quality and variety, the creation of more job opportunities, in essence, the fulfilment by business of its economic function in society, has contributed to the general advancement of the material well-being of society over the years.

In Malaysia, a concern has materialised through the concerted efforts of individuals and organizations to speak out against the undesirable outcomes that are associated with unregulated development. These misgivings are substantiated by evidence of pollution in the environment, ecological problems, the indiscriminate depletion of scarce resources, and so on.

3. EXTENSION OF THE BUSINESS ROLE

The fact that the primary function of a business is to make profits cannot be denied. The life support system of any business enterprise is fuelled by profits. Without long term profits, a business will have no means to survive for very long. The issue that needs to be resolved is to establish, firstly, whether a business corporation in its endeavour to achieve its economic objectives should also be made accountable for the social side effects arising out of its actions, and secondly, whether it should be encumbered with matters of social concern within the environment in which it operates.

In the explicit context, a business corporation is expected to adopt a social responsibility role that would give consideration to the interests of the various "stakeholders" such as consumers, employees, suppliers, and the community in which the influence of the company has an impact. By "social responsibility" is meant "the performance (or nonperformance) of activities by a private enterprise without the expectation of direct economic gain or loss, for the purpose of improving the social well being of the community or one of its constituent groups. These activities are generally recognised by society and/or the law as beneficial to the well being of society." (Dilley: 1973).

Arguments can be presented to appeal to the moral sentiments of the high level decision makers of a business corporation to acknowledge responsibility for the adverse side effects that are associated with its business activities. In the past, business had been permitted to operate with relatively few constraints in a democratic economy. However, it is axiomatic that freedom must go hand-in-hand with self-induced responsibility. If there is no assumption of responsibility, then the natural outcome is that eventually freedom will be forfeited. A business cannot exist in a vacuum as an isolated entity by itself. Whatever activities that it undertakes will often have repercussions on other subsystems in the overall system, which is society in this case. Viewed in this light, business is a social subsystem, being encompassed by society.

For example, in 1980, the livelihood of the fishermen in many fishing villages were jeopardised as a result of poor catches caused by the effluents discharged from palm oil mills. The locations of some of the cases reported in the press included Kampung Baru in Perak Hilir (*New Straits Times*, 29/6/80), Kampong Kuala Juru near Butterworth (*New Straits Times*, 28/9/80) and Kampong Batu Tegoh outside Taiping (*New Straits Times*, 19/10/80). The serious effect arising from this source of pollution cannot be denied. It was estimated that the amount of pollutants discharged by palm oil mills in Malaysia, at that point in time, exceeded the sewage discharge of the entire population (*New Straits Times*, 18/6/80). The rubber industry was also implicated as a culprit for creating pollution where rubber latex factories were reported to have discharged about 30 million tonnes of effluent annually (*Malaysian Business*, June 1976, pp. 20-23).

This shows clearly that no business corporation can adopt a detached stance when it makes economic decisions that can produce adverse impact on society. It should give sufficient thought to the possible social implications that may arise from its actions. The outcomes of business activity, as shown by the examples given earlier, involve more than the production of goods and services. Thus, it can be argued that the adverse consequences that are caused by business activity should be borne by the business corporation concerned.

In the same way that society expects the strong to give a helping hand to the weak, the rich to help the poor, it also expects big successful business corporations to step forward to the forefront to assume their social obligations to those that are not so well off. The business enterprise which is given the opportunity to acquire wealth is created through the legal processes

established by society. A large business corporation cannot stand aside and claim that it is only an "economic institution" that undertakes a narrow economic function. Its large size is concomitant with additional benefits that it enjoys from economies of scale.

The extensive influence and the immense resource capabilities that are at its disposal require that a big business should be viewed more as a "social institution" as well. Its continued existence and the decisions that it makes can be defended only to the extent that these are consonant with the public interest or social purpose. This argument lends further support for big business to take on the social role, which is measured in terms of its performance as a social unit through its contributions toward improving the general well-being of society.

4. EMPIRICAL RESEARCH

A research study on the corporate social responsibility of 100 companies in Peninsular Malaysia was conducted in 1980 (Teoh and Thong, 1981). The sample of 100 companies was selected for study from a total of 397 companies that were identified. The data were collected through the application of personal interviews and the filling of designed questionnaire forms. The companies were selected from the plantations, manufacturing, and service industries.

4.1. Research Findings

There are four stages that can be identified in the evaluation of the degree of response that a company is committed to fulfilling its social responsibility obligations. The stages are indicated in ascending order of importance as follows: Social Awareness, Social Involvement, Social Reporting and Social Auditing.

4.1.1. Social Awareness

The research data indicated that all the 100 companies were aware that businesses are expected to take cognisance of the social responsibility role. This response to the very act of agreeing to participate in the research can be construed as fulfilling a social responsibility obligation. An indication of

the lack of social response can be directed at the 12 mining companies and 9 banking companies which did not respond positively to the invitation to participate.

Among the 100 companies, 12 companies responded that corporate social responsibility is exhibited when the business produces abundant goods and services guided by the profit motive, 49 felt that this role is assumed when the business is actively concerned for the social impact of its economic activities, and 39 considered that it should take a wider perspective covering the social side effects of its economic activities as well as involving itself actively in matters of broad social concern. The majority of the 12 companies that gave the first response were owned by Malaysians.

A large number of the respondents (89) ascribed the philosophy of top management as the primary factor which contributed to the social awareness of their companies. If social conscience exists in a company, this is inculcated through the initiative of enlightened top management.

The role of legislation with direct relevance to social performance areas was accorded the second highest score (69) as the reason for creating awareness of social responsibility. These legislations include the *Employment Ordinance, 1955*; *Trade Descriptions Act, 1972*; *Sale of Food and Drugs Ordinance, 1952*; and particularly the *Environmental Quality Act, 1974*, which provide protection of the interests of the employees, the consumers and the community at large.

Another factor which has created some impact on social awareness is the influence of parent company practice on corporate social responsibility, which was given the third highest score (50). This indication was given by the respondents from foreign owned subsidiaries of companies that are located especially in the United States and Europe.

4.1.2. Social Involvement

In this section of the research, an assessment of the degree of social concern as exhibited by the companies in the sample, was undertaken. Four major social performance areas were selected for the study. These areas refer to:

- (a) Human Resources,
- (b) Product/Service to Consumers,

- (c) Community Involvement, and
- (d) Physical Environment.

A four point scale was used to measure the degree of involvement of each company with respect to each of these social performance areas. Each respondent was asked to show whether the company's involvement was major (4 points), moderate (3 points), minor (2 points) and no involvement (1 point). The highest overall mean score of 3.700 was accorded to the human resources area. A majority of the respondents (71) indicated that this area was of major social concern while 28 thought that it was of moderate concern to their companies.

The product/service to consumers area received the second highest mean score of 3.656. This score was derived from 70 respondents who indicated that this area was of major importance while 16 gave it moderate importance.

The third highest overall mean score of 2.907 was given to the physical environment area. The respondents who indicated this area as of major importance numbered 32, with 37 who thought it was of moderate importance to their companies, and 15 denoted that it was of minor importance.

Among the four social performance areas, the community involvement area received the lowest overall mean score of 2.670. This score was contributed by 18 respondents who indicated major importance, 37 who indicated moderate importance and 39 who indicated minor importance.

The results of the research do show in some way that the involvement of the companies in the social performance areas are also associated with economic performance. In a number of respects, these two areas complement each other, in furtherance of the company's objective to make long term profits. The responses indicated that greater attention had been given by the companies to the social performance areas like human resources and and product/service to consumers, where their contributions toward profitability of the company is self-evident. The physical environment and the community involvement areas are given less consideration since the benefits that can be derived by the company are not tangible, of insignificant dimensions, and may take a longer time span to achieve.

4.1.3. Social Reporting

Among the 100 companies in the sample, only 29 of the respondents

indicated that information on social performance was presented in the annual reports. The ratio of public limited to private limited companies in the sample was 40 to 60. All the companies that provided positive responses on corporate social reporting came from the public limited companies whose annual reports are made available for public scrutiny. The annual reports of private limited companies are produced for restricted circulation and to satisfy statutory requirements. Thus, these annual reports would not contain any other information that is considered unnecessary, including that of reports on social performance.

4.1.4. Social Auditing

There was no indication of any company in the sample which practised this form of social response.

5. SPECIFIC BUSINESS SOCIAL ROLE ISSUES

Following the discussion of the findings of the empirical research conducted in 1980 on corporate social responsibility, it is considered appropriate to touch on specific issues which are associated directly and indirectly with business. Information concerning these issues have been compiled mainly from the current and not so current reports published in the local newspapers. The presentation will be categorised into the four social performance areas that were indicated earlier on.

5.1. Human Resources

5.1.1. Illegal Immigrant Workers

During the past year or so the increased presence of illegal immigrant workers, especially from Indonesia and the Philippines had been reported (*New Straits Times*, 16/12/85, 16/2/86). Even though the exact number of these illegal immigrants is not known, the quoted estimated figure was given as totalling about 1.5 million (*Star*, 1/3/86). The director-general of the Immigration Department felt that the total number of illegal immigrants was not that large, but he could not provide the actual figure (*New Straits Times*, 14/8/86).

There are a number of factors that have encouraged the presence of such workers. The almost free education provided by the Government and the automatic promotion system up to Form III meant that since Merdeka,

the average Malaysian youth has had nine years of education. There are some even who have failed the LCE Examination who consider themselves too well educated to demean themselves by working as labourers in the rubber and oil palm estates. At the same time, the amenities provided in these estates for the workers have not been kept up with the times. The environment of the estates lack the excitement and the bright lights that are available in the cities and large towns. Even the children of the rubber tappers and oil palm estate workers are not happy with the low wages paid by the estates, and they would rather work elsewhere.

In the construction industry, even though the wages are higher than those earned by the workers in the estates, such work is more demanding in human effort and energy. This tough way of earning a living has deterred many Malaysian youths from working in this industry. Again, in the 1960s and the 1970s, the high wages paid to the construction workers in Singapore had lured away many of the skilled and semi-skilled Malaysian workforce.

These factors have created a shortage of workers to work in the rubber and oil palm estates and in the construction sites. The lack of supply of Malaysian workers provides a golden opportunity for the estate owners and their managers, the contractors who supply labour to the estates, and the contractors on construction jobs to make use of illegal immigrant workers who are in ready supply.

It cannot be said that these illegal workers are employed out of altruistic considerations. A newspaper report indicated that in the non-MAPA plantations, illegal workers were paid less than 50 per cent of the wages received by the local Malaysian workers. The employers do not make any contributions to the Employees Provident Fund or pay any Special Relief Allowance for such workers. In addition, these workers often have to work 12 hours daily compared with the normal 8 hours of work undertaken by the Malaysian workers. These illegal workers are often accommodated in kongsis without being provided with amenities like running water and electricity supply.

The Malaysian employers justified their use of the illegal immigrant workers by pointing out that if they did not do so, they would not be able to produce their products and services at low costs in order to enable them to compete in the local and foreign markets. Thus, it is the profit motive that has encouraged the employers to make use of such labour.

The presence of these illegal workers has given rise to the spate of armed robberies of the homes of some of the affluent Malaysians. Police investigations revealed that a number of robberies were committed invariably by the bad hats among the illegal workers. The Health Ministry reported that the illegal immigrants posed a threat by transmitting diseases such as

malaria, tuberculosis and typhoid. The illegal workers who worked in isolated land schemes and estates might pass on these diseases to their fellow Malaysian workers and in this way caused the diseases to be disseminated.

Even though some of the employers in the plantation and construction industries have made use of illegal immigrant workers to their advantage, the harm that they have perpetrated on the Malaysian society in the long-run cannot be readily assessed. What happens to these illegal immigrant workers and their children in, say, 20 years time in this country? Can the presence of such workers be eliminated totally? If foreign workers are to be employed, is it not better to do this entirely through proper channels so that records are kept, and action can be taken to repatriate such workers after a certain period of time? Can the plantation and construction industries make use of advanced technology to reduce the need for workers to engage in back-breaking and arduous work? Even during these days of economic recession and the the dismal forecasted figures of increased unemployment, will some of the Malaysian workers rather be unemployed even though they are offered jobs in the plantation and construction sectors which are short of labour? Can the employers ensure that adequate facilities and remunerative benefits are provided to encourage Malaysians to work in these sectors? It is easy to ask such questions, but answers cannot be readily provided.

5.1.2. *Retrenchment*

To the Malaysians who are born after the Second World War, the immensity of the employee retrenchment problem is a matter which they have not experienced before. There are those who are affected directly or indirectly. Among the individuals who are affected directly include those who are laid-off and their dependents, who have to make drastic changes to suit their unfortunate economic circumstances. Those who are affected indirectly may have relatives or friends among those who had been laid-off, and who cannot help but be made aware of the serious nature of the problem. Retrenchment of workers had taken place before, but such practice had not been undertaken on such a vast scale as compared to what had taken place during the past one or two years.

The statistics on the exact number of workers who have been retrenched recently are difficult to obtain since the companies that have engaged in this type of exercise are reluctant to divulge such information. There is a stigma that is associated with the practice of retrenchment since to resort to it is a clear sign of corporate failure. The Minister of Labour reported in Parliament on 11th March 1986 that a total of 43,844 workers were laid-off

from various sectors of the economy in 1985 (*New Straits Times*, 12/3/86). The manufacturing sector was confronted with the largest number of retrenched workers totalling 27,598 or 63%. The total number of employees retrenched in 1986 up to July 31 was 9,429 (*New Straits Times*, 20/8/86).

On the whole, the economic slow-down was reported to have caused directly or indirectly about 100,000 persons in Malaysia to lose their jobs (*New Straits Times*, 18/1/86). About 50,000 to 70,000 Malaysians who were working in Singapore were laid-off and had returned to Malaysia. The MTUC secretary-general alleged that over 100,000 workers had been dismissed from work since the beginning of 1985 (*New Straits Times*, 29/1/86).

According to the MTUC, not all the retrenchments in the country were the result of world economic recession (*New Straits Times*, 3/2/86). A study conducted by the Congress indicated that the employees were dismissed as a result of power struggles among the shareholders. Some big companies had used the pretext of a small drop in their profits to cut down on the size of their work force. Another cause of lay-offs was due to the purchase of modern machinery. For example, a cigarette making company which reduced the need for 400 workers, and these workers were retrenched (*New Straits Times*, 13/2/86).

The employees who were laid-off included both blue and white collar workers; the skilled, the semi-skilled and the unskilled workers; and in some cases even senior staff such as geologists, engineers and accountants were retrenched. In the retrenchment exercise, there had also been indications of foul play, especially among the nonunionised companies, where the principle of "first in, first out" was applied instead of "last in, first out" (*New Straits Times*, 13/11/85). Such companies made use of the former principle because the senior staff were the higher salary or wage earners, so greater savings would be effected if they were laid-off first. This practice contravenes natural justice, and no consideration is given at all to reward employee loyalty.

The labour laws provide for retrenchment benefits to be paid to the dismissed workers. But there are indications that some of these workers are even deprived of such benefits (*New Straits Times*, 8/2/86). When the assets of companies that go into liquidation are distributed, the other creditors are accorded higher priority for payment, while the compensation of employee termination benefits are given low priority. There are companies that had practised lockouts and shutdowns for extended periods where the workers were not paid any compensation.

For whatever reasons that the employees of a company are laid-off, some portion of the blame can be laid at the door step of the top managers.

These managers have failed to perform their functions effectively. One electronics company had to close down because it had only one product line. There are reports of other companies, especially in the sunset industries, where diversification was undertaken in companies that were closely allied. When the principal products failed through lack of demand, the others followed suit, generating a domino effect. There are indications of companies where the top level managers are not suitably qualified or trained. It is very true to say that in an economic boom even poor quality management can show profits. Whereas in an economic recession, it is effective and good management that can make the companies survive. There is little doubt that the companies that are floundering are the ones that are associated with bad management.

The management experts are of the opinion that retrenchment can be avoided or abated through the application of good planning (*New Straits Times*, 18/11/85). A business organization should be lean in terms of its staffing during both good and bad times, rather than taking in a lot of new staff (fat) during good economic conditions and being forced to reduce the number of workers during difficult times. The latter practice increases costs, smirches the image of the company, and also generates feelings of insecurity among the employees. Even though savings may be derived from employee lay-offs, these savings are diminished through the costs incurred in the payment of termination benefits, ex-gratia payments, legal fees and the cost of having to rehire and train the workers when the business improves. When workers are laid-off frequently, a premium will have to be paid to encourage new workers to come in. At the same time, the good quality workers will be looking for job openings elsewhere, so that they will not be faced with the constant threat of being axed one day.

One course of action that a company can take before resorting to the exercise of retrenchment is to practise salary and wage cuts right across the company, from the managing director to the lowest level worker. This is only fair since the top level managers are empowered to chart the fortunes of the company. If the company does not do well, it is not justified that only the low level workers are made to take the brunt of failure by being laid-off, while the managers who are responsible are not penalised in any way. Recently, action has been taken by some companies to cut the pay of their higher level managers and executive directors by 3 to 10% in support of the austerity drive (*New Straits Times*, 31/5/86).

5.1.3. Forcing Employees to Take Vacation Leave

During the height of the economic recession, reports had been received of some companies that had to cut back their production due to lack of demand. This had taken place especially among some companies in the electronics industry, which operated only 3 or 4 days a week. All overtime work was stopped.

Complaints had been received from the workers in one factory that they were forced to take 50% of their entitled annual leave during the extended shut-downs which were timed around the festival holidays. Those who had insufficient annual leave during the shut-downs had to take leave of absence without pay.

On the other hand, when the company had huge orders to fulfil, the workers were asked to work 12 hours a day and on Sundays as well. During this period, applications for annual leave were rejected, unless they were taken for emergency reasons approved by the company.

According to information received from the Ministry of Labour, the employees cannot be forced to take unpaid leave against their will. It is elaborated further that nonunionised workers who are required to take no pay leave in excess of 12 normal working days during a period of 4 consecutive weeks are entitled to claim for lay-off benefits. Workers who consider that they are treated unfairly in this matter can complain to the Minister of Labour. The Ministry is aware that the aggrieved workers have not come forth to do so because of the fear of losing their jobs (*New Straits Times*, 28/2/86). Even the Industrial Court upheld that the taking of annual leave should not be forced on the employee to suit the convenience of the company, and that such leave was not intended to cover situations of cut-back in production.

5.1.4. Employee Safety at Work

The incidence of accidents has an adverse effect on the productivity of the workers either directly or indirectly. Even though management may only be looking at the direct costs incurred from industrial accidents, the indirect costs, or hidden costs, may amount to 4 times more (Lim, 1978). The Malaysian employers advocate that the responsibility for occupational safety should be the joint responsibility of the employers and the employees themselves (*New Straits Times*, 7/10/85). However, for the construction industry, the Factories and Machinery Department place the onus on the employers to ensure that the workers wear safety helmets and follow other

safety rules (*New Straits Times*, 30/5/85). Many employers at construction sites were prosecuted for not taking action to ensure that the workers comply with safety measures that are set out under the *Safety, Health and Welfare Regulations, 1970*; and under the *Factories and Machinery Act, 1967*.

In spite of the statutory requirements for safety measures to be undertaken on construction sites, the statistics indicated that in this industry there were 119 fatalities in 1984, 130 in 1983, 174 in 1982, and 137 in 1981. The construction of the Penang Bridge which commenced in 1979, caused more than 20 workers to lose their lives (*New Straits Times*, 24/10/84).

During the second half of 1985, increased attention was focussed on the problems that were associated with the application of paraquat as a weed killer in the plantation sector. According to an article published in the June 1983 issue of the *Science Digest*, it was quoted that "paraquat is probably the most effective herbicide that exists right now, but it is also one of the world's worst poisons" (*New Straits Times*, 24/9/85). It is used because it is considered to be the most cost-effective herbicide currently available and that it is one of the most versatile tools in the field of agriculture. Paraquat had claimed 930 lives from 1980 to 1984 (*New Straits Times*, 16/11/85).

Other types of health hazards were confronted by workers at their place of work. In 1984, 18 employees of a tin-smelting company located in the northern part of Peninsular Malaysia were found to be afflicted with arsenic poisoning (*New Straits Times*, 12/12/85). The in-house union was instrumental in exposing the existence of this calamity, whereas the management denied such claims initially. Other reports of work hazards include those of workers who succumbed to poisonous gas while working in confined spaces like in a barge (*New Straits Times*, 20/11/85) or in a steel tank.

These examples of work hazards had been highlighted in the local newspapers. But it does not mean that some of the companies involved are not taking action to improve safety conditions at work. The 7 largest industrial users of asbestos in Malaysia have come together to put into operation an action plan for the safe handling of asbestos material (*New Straits Times*, 12/2/86). This step was taken in anticipation of the passing of the proposed *Factories and Machinery (Asbestos Process) Regulations*, following the proposals presented by the Advisory Council on Occupational Health and Safety in September 1985.

According to the Malaysian Employers Federation (MEF), the larger companies, especially the multinational enterprises, tended to be more so-

cially responsible in their efforts to improve occupational safety and health which somehow are lacking in the medium and small size companies (*New Straits Times*, 7/10/85).

5.2. Product/Service to Consumers

5.2.1. Get-Rich Quick Schemes

How many persons will have the strength of character not to take advantage of the following schemes to make quick money?

Scheme 1. For a maximum investment of \$90, a participant will receive \$1,470 in 100 days, subject to the payment of some minor administration charges (*New Straits Times*, 22/2/86). This scheme was introduced by a family-owned company. It was reported that an investor bought 11 units of this investment under different names and collected \$14,000 in cash after 100 days.

Scheme 2(a). For an investment of \$50 a participant will get back \$490 after the end of 120 days, \$100 will bring \$980, \$150 will bring \$1,470 and \$200 will bring \$1,960. Each participant can only invest a maximum of \$200 (*New Straits Times*, 21/3/86).

Scheme 2(b). For the investment of a maximum of \$90 or 3 units at the rate of \$30 a unit, a participant will receive \$1,490 after 90 days. The scheme was operated by a sole proprietorship company. A woman was reported to invest \$17,000 in this scheme.

Scheme 3(a). The participant is required to invest a minimum of one unit of \$20 and the company promises to repay \$50 for each unit in 3 weeks. There is no upper limit to the number of units that each participant can purchase (*New Straits Times*, 27/3/86).

Scheme 3(b). By paying \$2,000 a participant will receive a brand-new 1.3 litre Proton Saga, and for \$2,500 a brand-new 1.5 litre model of the car. The participant will need to pay cash to the company first and then wait 110 days.

These get-rich quick schemes attracted investments from individuals who are pensioners, civil servants, teachers, clerks, labourers, businessmen, housewives, members of the armed forces, professionals and so on. One scheme was reported to have netted some 60,000 investors.

An agent from another get-rich company reported that during the period between 23rd December 1985 and 31st March 1986, he collected

\$340,000 from 2,330 investors. The company had employed 50 agents and 7 sub-agents. It was estimated that the company had attracted altogether about 25,000 subscribers who invested more than \$7 million. For the first two weeks when the company commenced its operations, all the investors received their payments as promised. After that the company defaulted in making the payments.

These schemes are not new except that they appeared in this country initially under the guise of the sale of cosmetics through the pyramid style of selling in the early 1970s (*The Sunday Mail*, 2/2/86). The system operates in the pattern of a chain letter. Those who take part in each scheme reap the benefits which are paid for by those who enter the scheme later. The first few participants who receive their returns will publicise widely the benefits that they had received, thus attracting others to invest. The later investors will be placed at the bottom of the pyramid, and if there are no further investors these later investors will receive nothing (*New Straits Times*, 4/5/86). Of course, the company that operates the scheme will get the major share of the proceeds. This type of business can operate because many persons are gullible and greedy for quick returns.

The police have received many reports from people who feel that they have been fleeced by participating in such schemes. However, the hands of the police are tied at the moment because there are no legal grounds for them to take action against the perpetrators of this misdeed. It appeared that in some of the schemes, the terms and conditions that govern such schemes are printed at the back of the standard application form. But no investor is permitted to take back the form for closer examination of the terms and conditions. According to the police, there is a statement in fine print on the application forms stating that the investment is voluntary and that there is no guarantee of profits.

Action is being taken by the police to present proposals to the Government to review the registration regulations of such companies. This step is taken to ensure that other companies will not be set-up to engage in such nefarious business activities. One of the proposals would require companies to state their mode of operations and indicate how they would invest the funds collected from the public (*New Straits Times*, 4/5/86).

5.2.2. Other Fraudulent Practices

A company placed advertisements in the newspapers to invite applications for survey clerks and investment clerks, purportedly on behalf of a jewellery shop dealing in direct sales. It was reported that the company col-

lected some \$60,000 in registration fees which were sent by about 5,000 applicants. The authorities only took action when complaints were received that the jobs were not forthcoming and attempts to seek refunds were not fruitful (*The Sunday Mail*, 11/1/86).

A grandmother reported that she had lost her life savings of \$30,000 which she had deposited with a goldsmith shop that offered to pay interest at the rate of 14% per annum. The interest earned was paid out monthly. This woman received assurance from the wife of a prominent person that it was perfectly safe to deposit money in this goldsmith shop. In addition, the grandmother was familiar with the employees in the company, so she started to deposit various sums of money with the shop from 1984. Since she received her interest payments regularly, she decided eventually to put all her savings there. Her problem occurred in November 1985 when she found that the shop had closed and the operators had absconded with about \$1 million, which included all her money (*New Straits Times*, 27/1/86).

Twenty-five persons, in separate reports, alleged that they were swindled out of the money deposited with the interest due to them, by a finance company. The company issued post-dated cheques for the deposits and added the amount of interest earned during the period as well. When the depositors tried to encash the cheques on the due date, they discovered that the cheques were dishonoured. One group of depositors claimed that the money owed to them was about \$200,000 while the other 12 depositors indicated that they had deposited with the company sums of money ranging from \$3,000 to \$10,000 (*New Straits Times*, 15/3/85).

In another report, some 200 depositors who were mainly farmers and new villagers claimed that they had received post-dated cheques totalling about \$2 million for the deposits they had made with a credit company. The deposits, ranging from \$1,000 to \$45,000, were placed between 1984 and 1985. The cheques, issued by the company, bounced when they were presented for payment (*New Straits Times*, 24/4/86).

5.2.3. *Non-payment of Six-monthly Bank Interest* — a Historical Issue

In February 1985, some articles appeared in the local newspapers drawing attention to the fact that some banks and finance companies had been remiss in not informing their customers that they are entitled to receive their interest every six months on fixed deposits of more than one year. According to the rules of the Association of Finance Companies of Malaysia (AFCM) and the Association of Banks in Malaysia "Interest in

respect of periods exceeding 12 months will be paid every six months. The first interest payment shall be six months after the date of deposit, thereafter interest shall be paid every six months until maturity." Statistics obtained from Bank Negara showed that in September 1984, more than \$11 billion were put in fixed deposits in commercial banks and financial companies, for more than one year. Based on this figure, it was reckoned that since the half-yearly interest earned was not credited into the accounts of the depositors as a matter of routine, the depositors lost \$27.54 million a year (*New Straits Times*, 8/2/85).

When this state of affairs was brought to light, there were officers in some finance companies who insisted that the onus was placed on the depositors to collect the interest themselves. If the depositors did not do so, then the rule concerning interest on such deposits was interpreted to mean that interest was not compounded. However, some concerned depositors complained that the banks and finance companies had not taken adequate steps to inform the entitled customers of this six monthly interest. When the depositors applied to put the money in such long-term deposits initially, the forms that they had to fill in made no reference to this six monthly payment (*New Straits Times*, 10/2/86).

Subsequent to this adverse publicity, the Association of Banks was reported to have censured some of its members for not paying the six monthly interest to their depositors for long-term deposits exceeding 12 months duration (*New Straits Times*, 23/3/85). This action by the association shows clearly that it is necessary for the business community itself to undertake its own policing of its professional practices in order that it can still be accorded the respect that it seeks from the rest of the community.

5.2.4. *Call for the Reduction in Prices*

Following the recent reduction in the prices of flour, sugar, tinned milk, petrol, diesel and liquified petroleum gas, and also the fall in the price of the commodities like palm oil, tin and so on, there has been a call for the lowering of prices of other associated goods. The organizations that have spearheaded the campaign for price reduction include the Federation of Malaysian Consumer Associations, with the support of other organizations like Aliran, Insan, Malaysian Youth Council (MAYC), Islamic Youth Movement (Abim) and the National Union of Plantation Workers (NUPW). Tokens of support were given by the Malaysian Trades Union Congress (MTUC), Cuepacs and the National Council for Women's Organizations (NCWO) (*New Straits Times*, 6/4/86).

The businesses that were the first to increase prices in the 1970s are also now in the forefront in pointing out the difficulties in lowering prices. The President of the Malaysia and Singapore Coffee Shop Proprietors' General Association said that the prices of coffee beans had increased over the years and thus it was difficult to reduce the price of a cup of coffee (*New Straits Times*, 6/5/86). Even though there has been a drop of 24% in the price of diesel since January 1986, the President of the Selangor and Federal Territory Lorry Owners Association (SAFTLOA) claimed that it was not possible to provide cheaper transportation charges due to increases in the prices of lorry spare parts, the economic slowdown which made it difficult to generate adequate business activity to maintain the trucks, and the delay in the collection of credit. The association provided figures to show that it was difficult to make sufficient profits, let alone pass on some of the savings as reduction in transport charges to the consumer (*New Straits Times*, 5/5/86).

The results of a study on the various factors that are associated with the difficulty to lower prices were reported in the May 1, 1986, issue of *Malaysian Business*. Some of the managers of the companies that were interviewed were relatively frank in pointing out the reasons why they could not lower their prices, while there were others who chose not to vouchsafe any information.

One of the reasons for the price-drop inelasticity is the increase in foreign exchange rates which means that imported ingredients will cost more, cost of imported new plant, machinery and spare parts will cost more. The shrinking of the market acts against the benefits that can be derived from large scale production. The manufacturers may be able to cut some costs due to the reduction in the prices of raw materials, but these cannot be passed off to the consumer because such savings, even though small in nature, are taken up by the middlemen. The figures that were provided by the co-operating manufacturers show in general that the proportion of the production costs contributed by the use of fuels to generate power, and that of the use of sugar and flour, are relatively small. Thus, the reduction in prices of such Government controlled price items cannot significantly lower the prices of the products that they produced. However, when the prices of the Government controlled price items were increased, these companies did not present such arguments to support their actions in increasing prices.

5.3. Physical Environment

5.3.1. The Papan Affair

This incident was highlighted by the public demonstration conducted by the concerned residents of Papan, a small town located in the central part of Perak, in June 1984. The demonstrators voiced their anxiety over the disposal of nuclear waste by a company which was operating in that area. The nuclear waste, a by-product in the manufacture of rare earth, is thorium hydroxide, which is reputed to be toxic and would affect the liver, lungs, bones and blood cells, and would result in cancer and death. Exposure to this toxic material could cause miscarriages among pregnant women, and the birth of deformed babies (*New Straits Times*, 3/9/84).

The company had been operating in the vicinity of the town for 7 years and it was believed that the accumulated waste was buried within the compound of the premises of the company. The representatives of the concerned residents approached the company initially to get information concerning the location of the waste disposal dump, but the company officials refused to divulge any information (*New Straits Times*, 6/9/84). The residents even filed an injunction at the Ipoh High Court to prevent the company from proceeding with the production and the storage of radioactive wastes in the area (*New Straits Times*, 3/3/86).

The big hue and cry that was generated forced the Perak State Government to set up a technical committee to study the situation. The report, submitted by the technical committee, pointed out that the company did not make any reference to the Public Works Department when the trenches for the disposal of the wastes were constructed. The construction specifications for the trenches did not meet the standards on the permanent storage facilities for radioactive wastes established by the United Nations International Atomic Energy Agency. Independent inquiries were also conducted by foreign experts associated with the International Agency for Atomic Energy and experts from the National Radiological Protection Board, which confirmed that the 3 trenches built initially did not comply with proper civil engineering practices.

Following the findings and recommendations that were contained in the reports, the company was required to improve or rebuild the nuclear waste dump which is located approximately 2 kilometers from the old township of Papan. Such action would ensure that the nuclear waste would produce minimum risk to the workers, the public and the environment.

5.3.2. Effectiveness of the Environmental Quality Act, 1974

This act was gazetted on March 1, 1974. In April 1975, the Department of Environment (DOE) commenced its operations as one of the divisions of the Ministry of Science, Technology and Environment. After a decade since it was first established, the department has employed 300 enforcement officers among its staff (*New Straits Times*, 2/1/84).

Since 1981, the department has taken legal action to prosecute violators of the *Environmental Quality Act, 1974*. The number of such cases brought to court included about 30 each in 1981 and 1982, and 50 in 1983. Among the 50 companies that were charged in Court in 1983, 80% of them pleaded guilty of the offences that they were charged with and paid fines ranging from a minimum of \$200 to a maximum of \$10,000. The total amount of money collected from the payment of the fines in 1983 came to \$71,300.

In the war against environmental pollution, impressive results have been achieved in the palm oil industry since the implementation of this act. This industry was reputed the largest source of pollution in the nation. For every tonne of crude palm oil that is processed, approximately two and a half times as much of effluent is discharged. In 1983, more than 200 palm oil mills produced nearly nine million tonnes of effluent containing a total biochemical oxygen demand (BOD) load of 1,200 tonnes a day. This effluent discharge was responsible for more than 50% of the water pollution in the country.

However, through the application of assorted technologies to treat the effluent at the source, the reduction of the actual BOD load up to 99% was achieved. A four year programme to cut down in stages the discharge of pollutants to the riverine areas was initiated in July 1978. All the palm oil mills have the capacity of achieving at least 97% reduction while about 50% of them are meeting the standard set at 99% reduction. To achieve these incredible results, more than \$10 million were expended on research and development of treatment technology, and more than \$100 million in the construction and operation of the treatment plants (*New Straits Times*, 5/8/84).

It was reported that a few mills are known to have reached zero pollutant discharge, and have been successful in recycling the wastes. The tank digesters used to treat the effluent produce biogas, a fuel which can be applied to generating machinery to produce electricity. Following the treatment process, the digested effluent can be discharged in the palm oil estates for fertiliser. Studies at PORIM have shown that the effluent can be used as animal feed, and to produce enzymes which would increase the efficiency of oil recovery in the milling process.

At the Tennamaram Palm Oil Mill, operated by Sime Darby Plantations in Selangor, the economic analysis that was undertaken when the total integrated scheme (comprising of the anaerobic digesters, gas generating set and the land application system) was evaluated, showed that the total capital cost amounted to \$3,308,000 or \$588,000 per year. The operating cost per year came to \$318,923 with the annual revenue amounting to \$1,374,200. The payback period for this scheme is 3.1 years, showing that POLLUTION PREVENTION PAYS (Royston: 1979). Another report indicated that the application of treated palm oil mill effluent as a complete substitute for inorganic fertiliser by Harrisons Malaysian Plantations Bhd. was estimated to save the company about \$275,000 for the 1985/86 financial year (*New Straits Times*, 5/9/85).

5.4. *Community Involvement*

5.4.1. *The BMF Affair*

Even though a considerable amount of information has been publicised regarding this affair, there has been a lot of speculation and conjecture concerning how this situation came about. There is one reason for including this affair in this discussion. It concerns a conceptual practice of management.

In order to increase the effectiveness of a manager in the performance of his function, it has been advocated that he should practice delegation of authority since he does not have the capacity to do everything by himself. In the discussions presented on the delegation of authority, a principal and agent relationship is involved. It is clearly explained that if there is any wrongdoing by the agent in the context of the authority delegated to him, the principal should be accountable, since the principal has the power and control to prevent such a situation from happening. At this juncture, various prominent individuals have denied that they are involved in the BMF affair. But what about accountability for the occurrence of this affair? Who is the person, or who are the persons who had taken action to appoint the various directors to the Board of BMF?

6. MALAYSIAN CODE OF ETHICS FOR BUSINESS

Not many people are aware of the existence of this code since its formulation in 1983. The code was prepared through the efforts undertaken by the National Advisory Council for Consumer Protection which was set

up in July 1983 under the *Price Control Act, 1946*. The council consisted of 26 appointed members, who were instrumental in initiating the development of a "set of ethics or standards of practice for business with a view to encouraging and presenting truthful, accurate and ethical practices in all kinds of business." The code covers six critical areas of business responsibilities namely employees, customers, suppliers, shareholders or providers of capital, the government and the community at large.

The contents of this code are quite extensive and it is not the intention to present all of them here, but to highlight some pertinent principles that are relevant to this discussion:

(1) Towards the Employees

Business should:

- (iv) provide job security, adequate compensation for employees in cases of separation and retirement, and other fringe benefits;
- (v) provide a safe and healthy working environment conducive to the physical and moral well-being and growth of the employees.

How are these principles considered with respect to retrenchment, forcing employees to take annual leave at the times that they do not want to do so, use of paraquat, and inadequate work safety measures?

(2) Towards the Customers

Business shall:

- (i) strive for a quality of products and services that will serve its purposes efficiently and effectively.

In its marketing arrangements, business shall:

- (v) ensure that all mass media, promotional and packaging communications be truthful and informative so as not to abuse the trust of the customers or exploit his lack of experience or knowledge or take advantage of the naivety of children.

(4) Towards the Owners and Other Providers of Capital

Business shall:

- (i) provide an adequate rate of return to those contributing capital to the enterprise, and ensure the security of their investment.

Are these principles congruent with the actions of get-rich quick companies

and the unlicensed financial companies that have engaged in fraud?

(6) Towards Society

Business should:

- (iv) pay proper regard to the environmental and social circumstances of their business activity, with special attention to the duty of renewing resources where possible and minimising waste and pollution, and not sacrifice safety or efficiency in the interest of short term profitability.

How is the disposal of the nuclear waste in Papan, and the pollution of the environment by the factories engaged in sawmilling, quarrying, etc., viewed in terms of this principle?

At the Seminar on Business Practices, held in the late February 1986, to discuss the effectiveness of this Code of Ethics, a businessman spoke out against the unethical practices that were perpetrated by other businessmen. These involved manufacturers who did not take pride in their products and used foreign brand names, unenthusiastic response in securing SIRIM standards for their products, and unethical practices in the competition for tenders. The discussion also referred to the possibility of setting up Better Business Bureaus to curb unfair trade practices as a counterpart to Government imposing legislations to protect the interests of the consumers. The proposal called for the setting up of these bureaus by the various chambers of commerce and trade associations in Malaysia (*New Straits Times*, 1/3/86).

7. CONCLUSION

Even though the majority of issues selected for presentation here appear to point mostly to the negative side of Malaysian businesses, it does not mean to say that there are no companies in this country that are socially responsible. Looking at the issues in an overall context, it can be deduced in general that the small companies are less socially responsible compared to the large ones. Another aspect that has been brought to light is that even though some companies may be socially responsible when economic conditions are good, these companies will not be so socially responsible when the economic conditions are adverse. What it means is that when a company is confronted by financial difficulties and it is fighting for its very survival, then social concern for its employees and its customers is non-existent. The social responsibility of companies can be enhanced if the trade associations that they belong to take a firm stand in support of this social role. This is

shown by the action taken by the Association of Banks in Malaysia concerning the issue arising from the non-payment of the six month interest for long term fixed deposits. Here the association assumes the responsibility of policing its members, and thus maintains the respect that the public has conferred on this sector of the business community.

An important question that should be considered is whether legislation is better than the Code of Ethics in ensuring that businessmen cease or desist from engaging in malpractices that bring ill repute to the business community. It is argued that the Code of Ethics administered by a responsible body is more acceptable compared to legislation. But the Code of Ethics is likened to a toothless tiger which unscrupulous businessmen can ignore with impunity. Thus, it can be seen that there is an increase in the enactment of legislations to counter the irresponsible behaviour of businessmen. Often, when discussions are undertaken with regard to problems arising from the lack of social concern by business, the obvious and quick remedy is to call for the introduction of new legislation.

However, it is admitted that over-regulation restrain and suppress initiative, enterprise and vigour that are so vital to the well being of a business concern. In addition, legislations require enforcement, giving rise to the need to employ more government servants to do so. The statistics show that there are nearly 900,000 employees in the public sector. Compared to many countries, Malaysia has a high proportion of government employees. Following the demand made by Cuepacs for increased pay, even the private sector has pointed accusing fingers at the Government for engaging so many employees and incurring such heavy expenditures for salaries, pensions and other benefits. What the people in the private sector have failed to acknowledge is that they are party to this problem. Since a number of business enterprises in the private sector had not exercised self-regulation and self-responsibility, there is a need for the enactment of additional legislations, resulting in more government staff to be employed. If the businessmen are more responsible, then indirectly less government servants will be needed.

Various experts who have written on corporate social responsibility have indicated that the assumption of social responsibility by a business should not be undertaken at the expense of its profitability standing. It is accepted that a business must make profits in order to survive. But what rankles is that some companies should engage in unscrupulous activities and shady dealings in order that profits are made. For such companies, without such underhand practices, the companies would not make any profits at all. Such companies should not be allowed to survive since they are costly burden to society.

On the other hand, a company can play a more socially responsible role without eating into its profits, or become more socially responsible and make money out of it, as advocated by the slogan that POLLUTION PREVENTION PAYS. In the former case, is it a good strategy for a company to retrench its workers, and then a few months later to increase employment? Does it cost less for the company to pay retrenchment benefits, compared to cutting back to a three or four day workweek, without forcing the workers to take annual leave or unpaid leave during shut-downs? More attention should be paid to increase the well-being, contribution and commitment of the employees to increase their productivity, to employ competent managers who have the skill and expertise to keep the business on even-keel even during economic recessions, and to introduce innovation and better quality goods and services produced, and to achieve increased and sustained demand.

In the latter case, the example is cited of the use of palm oil mill effluent as fertiliser and animal feed, and the application of biogas to generate electricity. So far, there are problems for the companies in this industry to sell the excess electricity generated internally, since such sale will have to be approved by the Lembaga Letrik Negara (LLN). But, it does not mean that arrangements cannot be made to sell the excess electricity to the LLN. There is also scope to site new industrial estates, with factories requiring high demand for energy resources like gas and electricity, adjacent to or in close proximity with these palm oil mills. Whatever the problems associated with the social role of a business may be, it is necessary that those at the helm should adopt the positive approach to resolve such problems.

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