



## **The Role of Corporate Social Responsibility in Flood Mitigation among the Listed Insurance Companies in Malaysia**

**Suresh Ramakrishnan<sup>1\*</sup>, Sanil S. Hishan<sup>2</sup>, Abu Saim Mohammad Shahabuddin<sup>3</sup>, Malini Kanjanapathy<sup>4</sup>**

<sup>1</sup>Faculty of Management, Universiti Teknologi Malaysia, Malaysia, <sup>2</sup>Faculty of Management, Universiti Teknologi Malaysia, Malaysia, <sup>3</sup>Faculty of Management, Universiti Teknologi Malaysia, Malaysia, <sup>4</sup>Faculty of Management, Universiti Teknologi Malaysia, Malaysia. \*Email: [suresh@utm.my](mailto:suresh@utm.my)

### **ABSTRACT**

Rapid industrialization in the developing countries has contributed to an increase in natural disasters. Rise in the losses due to disasters is an indicator of non-sustainable development. Although in Malaysia the natural forces have been mainly liable for the natural disasters in the past, in recent times human intervention in nature is worsening the flood hazards in particular. As we move closer to the year 2020, the country is expected to face serious challenges in flood management. The recent flood situation is an example of the increase in the magnitude of the flood disaster. In this scenario, it is imperative to have a holistic plan to face this challenge. The role of the corporate social responsibility (CSR) in flood mitigation is one area which needs to be researched as private sector can play a key role in flood mitigation. This research involved a content analysis of company websites of the listed insurance companies in Malaysia to examine the extent to which these companies get themselves involved in the CSR programs related to flood relief and mitigation. The results showed that majority of the insurance companies that have the flood related CSR initiative is foreign owned. Furthermore, these companies have an institutionalized approach towards CSR. The result also shows that local insurance companies do not contribute much in terms of the flood mitigation related CSR programs. Based on the result of the website study we can conclude that the foreign insurance companies involve themselves in flood mitigation related CSR programs. However, the local insurance companies need to step up their efforts in terms of CSR programs related to the flood relief and mitigation.

**Keywords:** Corporate Social Responsibility, Communication, Insurance, Flood Mitigation, Disaster Management, Malaysia

**JEL Classifications:** D83, M14

### **1. INTRODUCTION**

The human and the economic losses due to disasters in the Asia Pacific region are alarmingly high. The rapid economic growth has spurred risk exposure and vulnerabilities. Most vulnerable to the potential impacts of the regions various disasters are the poor and the marginalized. A strategic approach to business engagement on community preparedness efforts requires beyond one off financial and in kind contribution. Employee volunteering, leveraging business assets and networks, supporting adaption of new technologies and innovative solutions and helping advanced advocacy efforts (Oehler et al., 2013).

Although there has been a rapid economic growth and technological advancement in Malaysia, it has not contributed to the reduction in

the losses due to the disasters. The disaster preparedness activities could help to reduce the costs of response and recovery from the disasters. There is an evident need to develop disaster response capacity and coping mechanism of local communities. Therefore, the private sector organizations including insurance companies could play a vital role in helping communities to prepare for disasters and in meeting the basic needs of the vulnerable group of the society (Oehler et al., 2013).

### **2. LITERATURE REVIEW**

The findings of some of the research on the role of corporate social responsibility (CSR) and disaster reduction have highlighted the role of corporate sector in disaster management. In one of the study on CSR and disaster reduction, the findings concluded that

there should be partnership between private, public and non-profit sectors to reduce the impact of the disaster. Sustainability is a major challenge to CSR work in this field. A mechanism is needed to overcome the isolation of the agencies in these areas and share lessons between them (Twigg, 2001). The content analysis on the CSR reports of the fortune 500 companies showed that corporations engage in the disaster related CSR initiatives for instrumental and ethical reasons. In the case of predictable or more stable threat, proactive long term initiatives included a broader stakeholder group. The activities ranged from financial based forms of assistance to collaborative partnerships with the non-governmental organizations (NGOs) and governments (Johnson et al., 2011).

The results of the research on the CSR and natural disasters in Srilanka recommended that there is a substantial potential to seek greater and more constructive engagement from the private sector on disaster management. The positive signs were visible in terms of initiatives, resource generation capacity and efficiency. However key negative elements included ad hoc nature of action, absence of any consultation with affected people, lack of continuity and impact assessment and patronizing attitude of some CSR initiatives of the company. An activity which has long term benefits has to be sold to organizations so that the private organization gets involved in the disaster management. However, it has to be noted that the private organization cannot do this efficiently without the collaborative partnership between government, private organizations and non-profit organization (Ariyabandu and Hulangamuwa, 2002).

Disasters have been classified as manmade disasters and natural disasters. The occurrence of disaster from almost all kinds of hazards is highest in Asia pacific as compared to the other parts of the world. Malaysia has experienced many natural disasters in the past few decades and most of them were natural disasters. Most of the natural disasters are due to heavy rains (Shaluf and Ahmadun, 2006). As we move closer to the year 2020, the country is expected to face serious challenges regarding the flood and drought management. Per capita availability of water is expected to greatly decrease as a result of growing population and greater usage of water for better quality of life, urbanization and industrialization. Another potential problem will be the increase in severity and frequency of flash floods. Resettlement schemes of the government are not taken positively by the public so government has to find an alternative solution to emphasize on the preparedness and try to involve the business to create awareness among the public (Chan, 1995).

The frequency and the severity of the natural disasters have increased in terms of losses in last few years. The low and middle income countries have suffered an estimated one third of the \$3.5 trillion in losses from the natural disaster that occurred during the years 1980-2011 globally. In particular, floods have increased in frequency and severity of impact. Climate change has already manifested in the rising sea levels, changing local rain pattern and more frequent storms - All these are the clear signs of the more severe flood hazards in days ahead. The ability of the countries to manage the impact of the disaster will have implication on the growth and development of the country. Investing in disaster

preparedness will help save lives and reduce the financial burden of the post-disaster response and relief efforts. This can speed up the recovery and help in maintaining the countries long term development. The multi-hazard mitigation council in America found that for every \$1 spent on pre-disaster mitigation to prepare for the natural disasters like flood about \$4 is saved in post disaster damages (Cutter et al., 2013). The fact of this net saving of \$3 by every \$1 investment could be true for the organizations of the private sector if their CSR spending can be deliberately channeled to the initiatives for flood preparedness.

The recent floods in Malaysia have caused severe damages. It has resulted in 21 deaths, more than RM 1 billion losses of properties and approximately 2000 lost homes. It is evident that due to the rapid urbanization and industrialization the challenge for flood management will be higher as the severity and frequency of floods is expected to increase. To counter this challenge a holistic approach of flood management is needed. This can be done through implementation of preparedness, emergency response and recovery strategies. Malaysia's past experience with floods have shown the need for the better flood management strategies (Husaini, 2007).

Over reliance on the government and international aids might be a constraint to effective disaster management. Especially in developing countries, this will lead to more instability because they may not have the funds and expertise to handle such disasters. The national disaster mitigation and preparedness has very low priority among international aid donors, moreover international agencies such as the United Nation agencies have limited resources to handle such issues. The private sector organizations have enough funds to partner with the NGOs to help the government to implement disaster mitigation and preparedness activities. The donation of inappropriate relief supplies by the private sectors is one of the serious problems. Private, public and non-profit sectors need to learn how to collaborate with each other for the disaster mitigation and preparedness activities (Twigg, 2001).

The insurance sector could be linked to disaster mitigation through public and private partnerships. This sector could be affected more by the disasters as it has a commercial interest to it as well. Whenever there is a natural disaster there will be an increase in insurance claim, therefore involving in disaster mitigation through CSR initiatives could make good business sense for this sector (Twigg, 2001). The present study attempts to develop a systematic understanding about the nature and extent of CSR initiatives of Malaysian insurance companies for flood relief and mitigation.

### 3. RESEARCH METHODOLOGY

This study was a qualitative study to analyze the role of CSR in flood mitigation in Malaysia. The research method for this study will consist of content analysis on the company websites to give information regarding the CSR programs of the insurance companies. Content analysis was done on the insurance company websites to identify the characteristic of CSR involvement and relationship with other stakeholders in the disaster reduction. Based on the findings of the content analysis the nature and

extent of CSR involvement of the organization was analyzed. The sample for the study included all the listed insurance companies in Malaysia. There are total 55 insurance companies listed in Bursa Malaysia. The data was collected from the insurance company websites between November 2015 and January 2016. The insurance companies are categorized according to the product and the nature of their business. Basically they are categorized under 11 different groups namely Life and General Business, Life Business Only, General Business Only, Life and General Reinsurance Business, Life Reinsurance Business, General Reinsurance Business, Takaful Operators for Family Takaful Business, Takaful Operators for Family and General Takaful Business, Retakaful Operators for General Retakaful Business, Retakaful Operators for Family and General Retakaful Business, International Takaful Operator. The sample included all the 55 insurance companies.

The companies CSR programs was divided into two different categories namely the CSR programs related to community involvement, and socially responsible employee relation which was used by Moon (2002) in his study which involved a 7 country study of CSR website reporting. However we did not include the third classification which is the socially responsible production because the sector under study in this research was a service sector and was not being relevant to our study. The programs which come under community involvement are CSR programs such as general community issues, agriculture, local economic development, arts and culture, community development, education and training, environment and conservation, health, housing, religion, sport, welfare (including poverty and emergency relief), youth and children-related projects, and other. Similarly the programs under the socially responsible employee relations included the employee welfare and employee engagement. Socially responsible employer relations refer to the status of the workforce as a stakeholder in the context of company decision making and the development of CSR practices and policies. Further, the companies were also classified based on the way the CSR was managed within the company, the companies which followed the traditional philanthropic approach in their CSR initiatives were put under the group of traditional CSR and the companies which had more institutionalized approach by having their CSR programs embedded in the company’s core strategy. Institutionalized CSR companies refer to those companies which have CSR related to the employee engagement, partnerships with NGOs, employing CSR codes. The data collected from the company websites were analyzed using a excel sheet performa designed for this study.

**4. RESULTS**

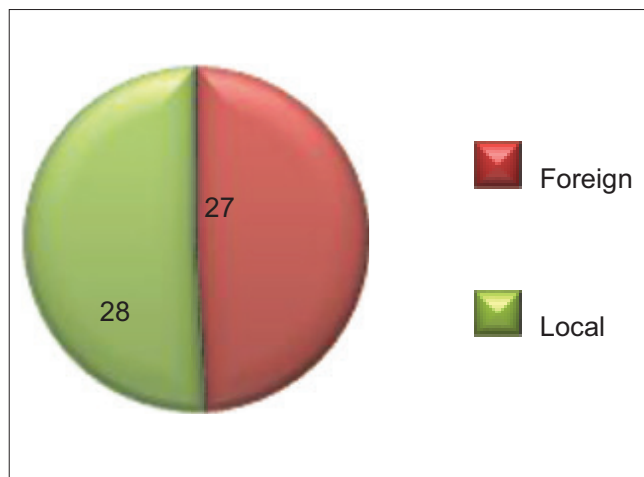
The data was summarized using the simple descriptive statistics, there are a total of 55 insurance companies listed in the Bursa Malaysia. Based on the ownership type the insurance companies were classified as local companies and foreign companies. As shown in Figure 1, 27 foreign companies and 28 local companies are listed in the Bursa Malaysia. However, out of these 55 listed insurance companies only 34 companies had given some information about their CSR initiatives on their company website as shown in Figure 2. The remaining 21 company websites either

did not have any information about their CSR activities or the websites were not accessible.

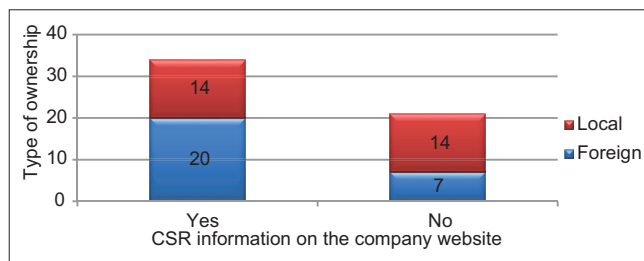
So based on the initial findings only 34 companies were taken for further analysis. Further analysis on the type of CSR involvement of the company revealed that most of the companies had both the community involvement and the socially responsible employee relations related CSR programs. As shown in the Figure 3 none of the companies concentrated only on socially responsible employee relations as they preferred to use the combination of both the community involvement and the socially responsible employee relations related CSR programs. However, there were few companies which involved in the CSR activities only related to community involvement.

On further analysis of the approach to the CSR companies with the institutionalized approach outnumbered the companies with the traditional philanthropic approach towards CSR. As shown in

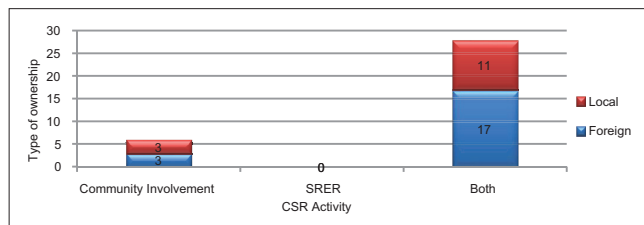
**Figure 1:** Classification of the companies based on the type of ownership



**Figure 2:** Classification of the companies based on the communication of corporate social responsibility related information



**Figure 3:** Companies corporate social responsibility (CSR) programs categorized based on type of CSR activity



the Figure 4 only 3 companies had the traditional philanthropic approach and all these companies were locally owned insurance company. All the remaining 31 companied had an institutionalized approach towards CSR.

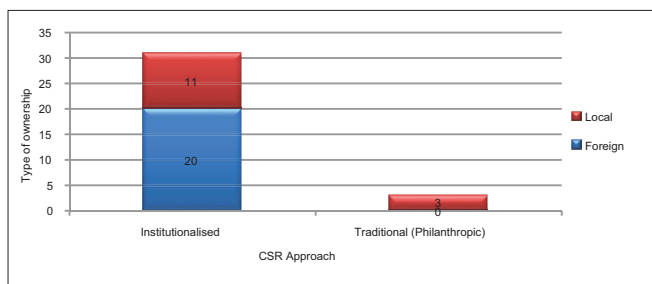
The results also showed that only 8 insurance companies has CSR programs related to disaster management and only 4 companies out of these 8 insurance companies had some CSR initiatives which focused on the flood mitigation. The details are shown in Figures 5 and 6.

The overall result of the website study shows that the insurance companies in Malaysia do not focus much on the CSR programs related to flood mitigation and disaster management. It is evident that only the foreign companies are more focused into the disaster management or flood mitigation related CSR initiative as the results shows that only 1 local company has some CSR initiatives related to disaster management. However, none of the local insurance companies have focused on flood mitigation related CSR initiatives.

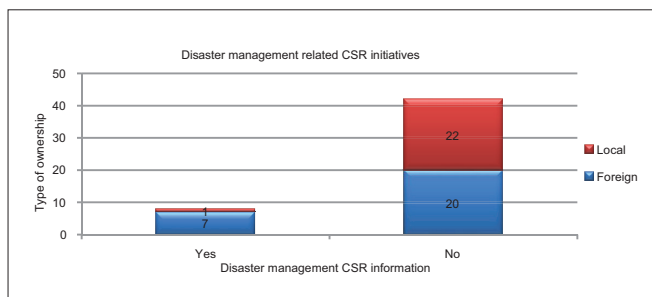
### 5. DISCUSSION

The result of this study clearly indicates that the disaster management is not the focus in majority of the companies CSR

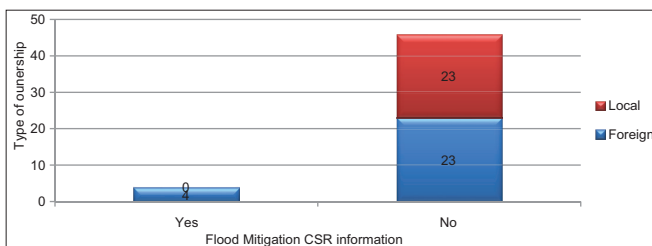
**Figure 4:** Companies categorized based on their corporate social responsibility approach



**Figure 5:** Corporate social responsibility (CSR) disaster management related CSR initiatives



**Figure 6:** Corporate social responsibility initiatives related to flood mitigation



initiatives in insurance sectors in Malaysia. Furthermore, there is only one local company which is into the disaster management related CSR initiative and even this local company has its head office outside Malaysia. This clearly shows that the insurance companies do not consider that the disaster management CSR initiatives will have any impact on their company’s direct or indirect profitability. Adaptation to the climate change is critical to the commercial success of the private insurance companies. In the long term it may affect the long term sustainability of the private insurance companies by limiting the availability and affordability of the insurance companies. The investments in activities that help in managing disasters due to climate change not only give them the reputational rewards but are necessary for the sustainability of the industry (Herweijer et al., 2009). So it is very important for the insurance industry to focus on the CSR activities related to disaster management which is closely related to the climate change. It is also evident from the previous research by (Twigg, 2001) that the insurance companies have a commercial interest for investing in the disaster related CSR initiatives. This is because this not only helps them in improving the image of the company, but also reduces the claims due to natural disaster in turn helping in the profitability of the organization. The research by the multi-hazard mitigation council in America has concluded that for every \$1 investment on the disaster preparedness activities will result in \$4 saving in the post disaster losses (Cutter et al., 2013). The losses due to the recent floods in Malaysia amounts up to RM 1 billion, so it makes real business sense for the Malaysian insurance companies to focus on the CSR initiatives related to flood mitigation. This will contribute to the business profitability and it will also reduce the losses to the nation during such disasters. As a policy recommendation we can suggest the Malaysian government to step in and give a directive on the focus area for CSR spending by the companies which also help in the effective use of the CSR spending by the company. The companies can think of strategic partnership with the government agencies and NGOs which get involved during such kind of natural disasters. The company has to design a CSR program which focuses more on flood mitigation rather than focusing only in the post disaster relief activities.

### 6. CONCLUSION

Although the majority of the insurance companies have an institutionalized approach towards CSR, there are some insurance companies who are yet to introduce CSR. Few of the foreign owned companies have identified the need to device the CSR initiatives which focus on disaster, majority of the companies have to focus on this area which can be a win-win situation for all their stakeholders. Overall, the Malaysian insurance sector is doing well in terms of their CSR initiatives. In terms of their involvement in CSR initiatives related to disaster management and flood mitigation they are way behind their western counter parts. Most of the Malaysian listed insurance companies involved in the CSR related to disaster management or flood mitigation are foreign owned. Therefore it can be concluded that the locally owned insurance companies have to understand the importance of the CSR initiatives in this area. They need to introduce such programs before the loss due to disaster threatens the sustainability of their business.

## 7. LIMITATION AND SCOPE OF FUTURE RESEARCH

The study was based on the CSR related information published on the website of the company, so there might be a case where there are companies which have CSR related activities but they have not published it on the website. Also, there might be certain information which was published earlier but was deleted as the companies keep updating the information on their websites. The study used the simple method for analyzing the CSR data future study can use some software to analyze the pattern of the CSR information, this will give some more insight on the CSR communication. Future study can use a quantitative research method using questionnaire and focus on the drivers and the barriers for the company to get involved in CSR initiatives related to the disaster management.

## REFERENCES

- Ariyabandu, M.M., Hulangamuwa, P. (2002), Corporate Social Responsibility and Natural Disaster Reduction in Sri Lanka. ITDG-South Asia.
- Chan, N.W. (1995), Flood disaster management in Malaysia: An evaluation of the effectiveness of government resettlement schemes. *Disaster Prevention and Management an International Journal*, 4(4), 22-29.
- Chapple, W., Moon, J. (2005), Corporate social responsibility (CSR) in Asia: A seven-country study of CSR web site reporting. *Business and Society*, 44(4), 415-441.
- Cutter, S.L., Ahearn, J.A., Amadei, B., Crawford, P., Eide, E.A., Galloway, G.E., Schoch-Spana, M. (2013), Disaster resilience: A national imperative. *Environment: Science and Policy for Sustainable Development*, 55(2), 25-29.
- Herweijer, C., Ranger, N., Ward, R.E.T. (2009), Adaptation to climate change: Threats and opportunities for the insurance industry. *The Geneva Papers on Risk and Insurance Issues and Practice*, 34(3), 360-380.
- Husaini, H.A. (2007), Flood and Drought management in Malaysia. Ministry of Natural Resources and Environment. Ministry of Natural Resources and Environment. Malaysia. Available from: [http://www.met.gov.my/files/ClimateChange2007/.../K2%20Husaini\\_p.doc](http://www.met.gov.my/files/ClimateChange2007/.../K2%20Husaini_p.doc).
- Johnson, B.R., Connolly, E., Carter, T.S. (2011), Corporate social responsibility: The role of fortune 100 companies in domestic and international natural disasters. *Corporate Social Responsibility and Environmental Management*, 18(6), 352-369.
- Moon, J. (2002), Corporate social responsibility: An overview. In: Hartley, C., editor. *The International Directory of Corporate Philanthropy*, 1<sup>st</sup> ed. London, New York: Europa Publications. p3-14.
- Oehler, M., Roeth, H., Welford, R., Ying, J. (2013), Business and Disaster Preparedness: Helping Communities Prepare for Effective Response. CSR Asia. Hong Kong. Available from: [http://www.prudentialcorporation-asia.com/export/sites/default/prudential\\_en\\_pca/resources/FoundationPDF/CSRA2013\\_Business\\_and\\_Disaster\\_Preparedness.pdf](http://www.prudentialcorporation-asia.com/export/sites/default/prudential_en_pca/resources/FoundationPDF/CSRA2013_Business_and_Disaster_Preparedness.pdf).
- Shaluf, I.M., Ahmadun, F.R. (2006), Disaster types in Malaysia: An overview. *Disaster Prevention and Management an International Journal*, 15(2), 286-298.
- Twigg, J. (2001), *Corporate Social Responsibility and Disaster Reduction: A Global Overview*. London: Benfield Greig Hazard Research Centre.