Ethnic Diversity in the Pluralistic Economy: Corporate Social Responsibility (CSR) in Four Critical Areas of Organizational Integration in Malaysia and Beyond

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Abstract

With the recurring public and academic discussions on equality, mobility and integration, the workplace represents a locus of concern for such issues as diversity and fairness. In the context of businesses, these social issues are under the umbrella of workplace corporate social responsibility (CSR), with special relevance to diversity management. This article maps out key issues of the diversity management vis-à-vis workplace CSR. While acknowledging the importance of other dimensions of diversity, such as gender, age, persons with disabilities and even class, this article delves specifically with ethnic diversity as a CSR agenda of businesses in Malaysia and beyond. It argues that there are four critical areas which are problematic: recruitment diversity, managerial diversity, ownership diversity, and supply-chain diversity. It contends that if social diversity and social integration were not well-managed in a pluralistic society or a globalized economy, businesses may face a whole host of internal and external risks with implications beyond the business operations. The critical examination of these dimensions aims to disentangle the underlying dynamics at work and shed some light on what could be explosive blind spots in businesses, and the economy at large.

Keywords: diversity management, workplace CSR, ethnic diversity, pluralistic economy
“While diversity may be the hardest thing for a society to live with, it may also be the most dangerous thing to live without. Nationality, ethnicity, race, gender – all of these are the legitimate legacy of humanity.”

– Les Rowntree

Introduction

Winston Churchill once said, “The price of greatness is responsibility”. Indeed, this is most relevant to the world of businesses. Research by Tullberg revealed a power shift from states to corporate sector, as indicated by Multinational Corporations’ (MNCs) revenues that exceed Gross National Product (GNP) of midsized countries (Tullberg, 2004). The sheer size of businesses (MNCs, SMEs and others) implies a great sphere of influence and power to build and nurture positive socio-ecological environments or conversely, to exploit and damage them. Consequently, as Corporate Social Responsibility (CSR) evolves throughout the years, the newly globalized economy has also brought to light the issue of self-regulation towards sustainability and positive social transformation. Malaysia is not spared from this wave of globalization as foreign investments since the 1970s have transformed the economy and have brought into contact even more foreign-local interactions in this pluralistic society. This article brings the issue of inclusive and integrative diversity management to the fore in which businesses under CSR are tasked with improving social cohesion through the process of management functions. Of equal concern is the role of smaller organizations, for the often the general assumption or perception is that large corporations have the resources to actively engage in CSR initiatives, while others are limited in its capacity; hence, diversity as a CSR agenda is somehow affected by this limitation. There may be truth in this perception even beyond Malaysia or the developing world, especially in the context of ethnic discrimination during recruitment. According to a research (Carlsson & Rooth, 2007) even in a progressive society such as Sweden, smaller firms are less likely to call up applicants with Middle Eastern names for interviews; hence, in effect discriminating them.

At present, the expectations on local businesses, large MNCs and even the public sector, be they legal, political or social, towards businesses have expanded from mere responsibility towards stockholders, to stewardship of social-environmental nurturance. The pressure for businesses to
be more and to do more is real and here to stay. Businesses and their practices need to be transformed. At the center of this transformation is the responsibility towards their stakeholders, such as supply chains and employees. As the power to effect change is often seen to be jointly held, or in many cases seen to exist within the purview of businesses, the challenge for businesses is to maintain a sustainable win-win relationship, which works within a framework of social justice and ethnic integration. With this heightened attention on the social roles of organizations, fairness is, therefore, the new game. It is the litmus test that businesses will have to take and pass. The overarching question is whether businesses are promoting inclusive diversity management or hurting it, especially in the spheres where they have virtually direct control. This emergent corporate social responsibility and its associated challenge and potential threats, with special reference to the businesses’ staffing, ownership and supply chain policies, constitute the main thesis of this article. As accelerated globalized economy witnesses the reconsideration and redeployment of trade protection mechanism, a greater concern for diversity management warrants attention, which encompasses both integration of various ethnicity or even local-foreign in the public sectors and private sectors. Without preparation for the potential threats and challenges in the years to come, businesses, and by implication, the economy can suffer. Inevitably, discussion on diversity management is interwoven with social justice as structural discrimination, negative experiences, perceived deprivation and alienated feelings can defeat the purpose of integrative diversity management.

Diversity should not be taken for granted and should be encouraged and strengthened. This paper highlights four critical areas or issues and trends of diversity that affect businesses and through which businesses can effect change. As expectations of organizational accountability on these four areas are rising to new levels, they can also be considered as trends in ethnic diversity of CSR and ignoring these areas or trends may lead businesses into troubled waters.

The Critical Areas in Ethnic Diversity: A Brief Look

The critical and often controversial area of ethnic diversity is ownership structure within the business organization. Social justice in this context entails having fair wealth distribution with the different groups within the community a business operates. To what extent would a business be seen as responsible if it uses and thrives with local resources yet surrounded by communities
that continue to be poor? Would this be sustainable? What if certain ethnic groups are seen to be more prosperous with the presence of a business community, while some other ethnic groups are seen to be marginalized even victimized? These are some of the questions that need to be addressed.

In addition, an integral part of diversity management is the fair treatment for employees of diverse ethnic backgrounds in recruitment and promotional exercises. This falls under recruitment and managerial diversity. If businesses are seen to be favorable only to a selected circle of ethnic groups, then there can be a perception of unfairness and discrimination by employees and the general public, which can be counter-productive to their CSR agendas and hinders organizational integration. There is indeed a plethora of issues related to recruitment and managerial diversity. They range from minority groups holding positions of different importance, status and prospect, in addition to overly disproportionate compensation between top executives and the working class which may be dominated by certain ethnic groups. More often than not, the minority groups are likely to be excluded from the inner circle of power, have limited advancement opportunities and recognition or holding lower-middle positions and not empowered to defend their interests. Talents and potentials overlooked and expected to undertake menial, non-strategic positions for extended periods. Without careful monitoring to diversity and multiculturalism at work, interpersonal conflicts which are prone to happen, will have spillover effect into Inter-group conflict, generating serious management crisis as to render organizational dynamics dysfunctional. Attention to inclusive diversity management is therefore a critical aspect to organizational integration.

The supply chain diversity represents another crucial CSR agenda. The CSR challenge for businesses is to create diversity within the supply chain ensuring a fair participation of local vendors and distributors and from diverse ethnic groups of local communities. The CSR agenda necessitates a set of proactive measures to create diversity in the supply chain. A large part of this involves what has been termed fair trade for the locals. In the context of establishing fairness in the supply chain, big businesses are often questioned for whether or not they have fairly empowered and engaged local communities or have opted for their own foreign suppliers. Another question is whether or not they have purchased local commodities, especially raw materials, at exploitative prices and yet product pricing at the end of the chain is much higher.
Critical Area #1: Ownership Fairness within the Business Organization

According to social critic Furgeson (2009), “the massive inequalities and class differences that occur in the process of capitalist accumulation allow only the wealthy few in capitalist democracies to truly have the freedom to exercise civil and political liberties and to amass private property (pg 272). This leads to the next question: does the lack of ownership produce and reproduce inequalities and class differences which often deprive certain ethnic groups relative to others? The importance of ownership diversity must be seen in this context. This vicious circle of class production and reproduction needs to be arrested in order to truly alleviate ethnically-linked poverty and inequality.

A major structure impeding the ethnic groups of lower social stratum from owning assets lies in the capitalist system that rewards the upper social-economic class at the expense of the working poor. Yet, various measures are workable to ensure ownership of business are well-represented by diverse groups, such as synergy with local suppliers, joint-ownership or assistance in the form of micro-credit or incentives. Ownership should reflect multiple groups’ participation, and not just the mainstream ethnic community from economically dominant group(s) or from developed countries, but also minority groups from receiving countries. In Bangladesh, a majority of 97 percent micro-credit loans from Grameen Bank are offered to females, who are over-represented in the poorest income bracket. Grameen Bank, also known as the bank for the poor, is a social enterprise set up to assist the lowest income group to set up their entrepreneurs (Grameen Bank, 2010).

In a joint project conducted by the United Nations Environment Programme Finance Initiative (UNEP FI), African Task Force, Noah Financial Innovation, and the University of South Africa (UNISA) Centre for Corporate Citizenship on “the State of Responsible Investment in South Africa”, the agenda of black economic empowerment (BEE) and gender empowerment have been incorporated as an integral part of socially responsible investment (SRI) (UNISA Center for Corporate Citizenship, 2007). However, in this emerging African economy, it is found that “the
majority of respondents\(^1\) reported very little demand for RI practices from investors at the end of the value chain – pension fund members and retail investors. (UNISA, p21)”. This is the crux of the matter. This responsibility gap is arguably one of the critical problems which ties investment to progressive and inclusive development and indeed has direct implications to what is defined as diversity management in the context of CSR.

Similarly, in Malaysia’s pluralistic economy, the never-ending pressure for more indigenous’ share of corporate equity arguably follows the same logic. Although the indigenous community or better known as Bumiputera (consisting of Khadazans, Ibans, Malays and other groups) form a majority of the population (approximately sixty percent), they hardly have twenty percent of the equity. Yet, debates on diversity and fairness in ownership structure continue to be one of the unresolved sticking points in ethnic relations in Malaysia.

**Critical Area #2: Diversity of Workplace Recruitment**

Related to Issue #1 but in a different form; we further extend this argument into another form of “capital”, the social capital. Inequalities happen not just in the forms of wealth but also cultures, attitudes, mentality, resourcefulness etc. Candidates of better cultural backgrounds not just enjoy and have access to more life opportunities but are better prepared to take up and exploit such opportunities to their advantage. However, we cannot assume schools, colleges and other socialization agents are fully functional in achieving this purposes. Therefore, the culturally “rich” segments will amass more opportunities by means of career advices, counseling, guidance, life-decision, exposure and character education opportunities from their families; which further reinforce their intergenerational lead over other culturally disadvantaged segments. Some companies or trade unions acknowledge such socially deprived groups and make explicit their keen beliefs in helping these groups. For example, a statement from The Confederation of Indian Industry and the Associated Chambers of Commerce and Industry of India’s (ASSOCHAM) Code of Conduct for Affirmative Action contains such principles:

\(^1\) Respondents are mainly pension funds and asset managers (representing “two most influential groups in the investment value chain") (UNISA, 2007, p11).
“... to assist groups that are socially disadvantaged in India. The types of principles in the Code of Conduct include: A) The Company affirms the recognition that its competitiveness is interlinked with the well-being of all sections of the Indian society; B) The Company believes that equal opportunity in employment for all sections of society is a component of its growth and competitiveness. It further believes that inclusive growth is a component of growth and development of the country; C) The Company affirms the recognition that diversity to reflect socially disadvantaged sections of the society in the workplace has a positive impact on business; D) The Company's selection of business partners is not based on any considerations other than normal business parameters. In case of equal business offers, the Company will select a business partner belonging to a socially disadvantaged section of society; and E) The Company makes / will make all efforts for up-skilling and continual training of employees from socially disadvantaged sections of society in order to enhance their capabilities, and competitive skills.” (The Confederation of Indian Industry and the Associated Chambers of Commerce and Industry of India official website, 2010)

Another state-supported organization advocating the improvement of employment opportunities for ethnic minorities in the UK is Race for Opportunities. It was developed by UK-based Business in the Community and targeted towards senior business leaders. According to their official website, Race for Opportunities:

“The organization endeavors to promote the business case for race and diversity by: a) raising awareness of the barriers preventing ethnic minorities from making progress in the workplace; b) communicating the need to speed up progress on the introduction of policies that further better representation of ethnic minorities; c) highlighting the responsibilities and roles of leaders in delivering race diversity and d) making clear the economic and business argument for organizations investing in race diversity.” (Race for Opportunities, 2010)
One of such social challenges in Malaysia’s pluralistic economy is the long-standing ethnic integration, as ethnic segregation in the public and corporate sectors are still evident at this moment. It is not uncommon to hear charges and accusations of discriminated treatment in the public and private sectors. Such charges are not unsubstantiated as indicated by under-represented ethnic proportions, which do not reflect the actual racial distribution in Malaysia.

Critical Area #3: Managerial Diversity

Managerial diversity is related to recruitment, retention and professional mobility of marginalized ethnic groups. Workplace diversity is an inevitable trend; and interpersonal conflicts are part and parcel of working life. The main challenge of diversity management is to mitigate social identity conflict inherent in multiple group working environment. Another distant issue but relates to recruitment diversity involves transnational operations. In a globalized economy, inevitably, a MNC has to operate in different offices following local cultures and norms. Such localized human resource policy sometimes creates a feeling of injustice due to different compensation packages across different offices scattered throughout the world. In today’s economy, staffs are highly mobile, if staff from different offices received differentiated reward for their service, a sense of deprivation and alienation may prevail, they are likely to leave for perceived discrimination. For example, Google China once harbored the best IT elites in China, but their pay was much lower than their US counterparts, as a result, brain drain occurred. Apart from unskilled workers, knowledge workers from developing countries, sometimes feel discriminated and exploited as they are not fairly rewarded for technical support given to their colleagues or “superiors” in Western headquarters, who claim ownerships of the final products.

The foundational premises to the argument presented in this article have many parallels to Marx’s contentions on work and alienation. A job is not just a pay for work done. An employer offers not just a wage, but also safe working environment, a sense of security, a decent living and personal development. A “job” that lacks the above-mentioned conditions is but an inadequate, incomplete “half-job”. Personal development in this context means to individual’s professional development, self-satisfaction such as sense of ownership of final product, competencies and opportunity for progression. Repetitious, alienating, menial job that does not enable
accumulation of work-related knowledge can be a form of exploitation as it deprives the worker from her learning needs. This often takes place when a worker is perceived to be mere short term fix to labor shortage and dehumanized on the excuse of job requirement. This dynamics of work relates closely to managerial diversity. Managerial diversity is the result of fair treatment and advancement of workers professional life which eventuates in upward mobility. The process as well as the outcome ought to be fair. For this reason, the diversity challenge is for a business to fairly treat and develop its workers and to ensure fair representation of various ethnic groups at the managerial level.

The key to ethical and benign working culture is moral leadership by the management (Vershoor, 2000) which has become an acute issue in developing countries where most labor-intensive manufacturing activities are carried out as foreign investment flooding in driven by tax incentives, low labor cost and non-existent of labor unions. These companies often adopt different Human Resource policies in comparison with home countries, which mainly constituted by middle management and lower end workers. Local-foreign workforce tension is under-reported but understandably and presumably inflicts some segments of Malaysian population, causing distress at work and impacted working morale. This is often tolerated since the local executives hold position of lower status and decision power but nevertheless entails dented confidence and morale, distorted attitudes which further reinforce the already under-rated performance appraisal since they are not expected to prove the potentials.

“Many large companies are facing negative publicity campaigns about the issue of social dumping, which takes place in production processes and which dissuades an increasing number of socially aware consumers from buying their products” (Fuentes-Garcia et al, 2008).

At the global level, social dumping can happen in the form of “work dumping” in which menial jobs with limited professional advancements are “exported” to developing countries. To address this problem, host country governments will have to make explicit inclusion of human capital building such as training and development to be one of the important agenda in such MNCs and foreign firms and local firms alike. Furthermore; corporate disclosures based on international Global Reporting Initiative (GRI) on social sustainability issues, including their Human
Resource policy and achievements need to be introduced and reinforced. As part of diversity management, it is important to focus on cultural sensitivity training education and training. Differing opinions on organizations can be taken as critical instead of constructive in the eyes of managers (Tropman, 1998 as quoted in Acquavita, 2009). The leadership should be sensitive to symptoms of escalation of social identity conflicts and recognize when such conflicts are about to erupt. Those in leadership positions should send a strong message from management in support of an inclusive workplace, mentoring marginalized workers, developing open communication procedures, creating positive social occasions and educating staff on diversity and inclusion (Mor Barak, 2005; Mor Barak & Levin, 2002).

Likewise, one can witness different Malaysian ethnic groups occupying different positions of power in business organizations in Malaysia. This does not mirror organizational integration. The ethnic division of work which tends to separate Chinese, Bumiputras and Indians into different hierarchies has the same effect of perpetuating ethnic tension. Chinese and Indians would often complain that the public sector is ruled by Bumiputras, where favoritism is practiced to benefit the Bumiputras. Yet, Bumiputras and Indians would argue that the Chinese control many industries and that the Chinese language and social networks are used to maintain Chinese supremacy in the specific areas of their business. Unless and until a CSR formula is established to create and showcase managerial diversity, the skepticism and the resentment will continue to exist and many times would poison the inter-ethnic harmony and social stability. In the Malaysian pluralistic economy, companies’ effective CSR practices in managerial diversity can mitigate the ethnic polarization of Bumiputras, Indians and Chinese seen in many businesses at present.

**Critical Area #4: Supply Chain Indigenization and Diversity**

In relation to ethnic diversity, the aim of supply chain indigenization and diversity is to create a supply chain with (i) a substantial win-win involvement of the local ethnic communities and with (ii) fair representation of various ethnic groups in the supply chain without involuntary exclusion of any ethnic groups. It mainly deals with the ways in which businesses engage the local communities in the sourcing of materials, commodities, products and services in a fair and equitable way. This agenda is particularly relevant when it involves large foreign corporations.
operating in communities in developing economies. More importantly, it becomes even more crucial if it involves less powerful communities such as farmers, villagers or even local businesses and suppliers who have relatively limited power to defend their interests against their more powerful MNCs counterparts and clientele. At present, a number of corporations have made efforts to encourage supplier diversity as a part of their CSR commitment. This has the potential to contribute to the social welfare by building the capacity of minority or marginalized communities across the globe. By developing business coalitions and partnerships with local suppliers there is tremendous opportunity to impact the economic development of minorities and make significant contributions to the growth and development of developing nations (Cole, 2009).

A good example of a supply chain diversity program is launched by AT&T (AT&T, 2010):

“In 2008, AT&T marked the 40th anniversary of its Supplier Diversity Programs, which began in 1968 with the creation of AT&T's Minority Business Enterprise (MBE). AT&T has mentored several suppliers to support non-traditional areas of the company's business, and has also helped diverse businesses break into other industries, like advertising and contract manufacturing.”

A related concept to supply chain diversity is fair trade. The central idea of fair trade is about reforming the international trading system and seeking direct constructive links between small producers in the South to consumers in the North (Fridella, 200; Reed, 2008). It is a CSR attempt to create fairness along the supply chain. This usually means empowerment of local producers as a part of the value chain through training and capacity-building. Reed (2008), listed the following as the component of empowerment:

“Facilitating market access, increasing market knowledge, providing support for local infrastructure, strengthening internal organization, increasing product quality, developing contact networks, developing alternative sources of income (though vertical integration, specialization and diversification), increasing income and services for members and increasing the number of participants and extending the benefits to the broader community.” (Reed, 2008, pg.5)

In a global-local network, social integration in supply chain indigenization means empowerment, capacity building and nurturing of local vendors. As an example, as much as possible, MNCs
should integrate local suppliers into the supply-chain or value-chain. This will involve training and development of local vendors, including provision of facilities and credits. Numerous researches reveal the upper stream sectors (refers to sectors engage in production of raw materials) to be firmly at the bottom of power hierarchy in today’s globalized supply chain operation (Prieto-Carrion, 2008; Women Working Worldwide, 2003; Collins, 2003). Of the four layers of supply chain: MNCs, factory, workshops and home-based workers, their researches revealed sub-contracted and home-based workers are the most exploited and least protected whilst factory workers fare better. An investor company with fair trade in mind deals only with ethical sub-contractors if they do not carry out direct operation themselves in the receiving country.

In addition to that, MNCs are expected to treat, promote and nurture workers regardless of their origins and races, whether they are from the receiving countries or the local man power. This is best illustrated by GE’s investment in South Africa who defied the Apartheid ruling. Although GE decided to withdraw its operation later, but the impact of the egalitarian staffing policy quickened the ideology transition process in South Africa (De George, 1999). The incident lends proof to our main idea of discussion: socially responsible practices in the economy are probably the most significant catalyst for social transformation. Based on this logic, the dissatisfaction among the various ethnic groups in Malaysia stems from the ethnic-economic lopsidedness whereby a particular ethnic group dominates a sector or an industry. These imbalances if left unchecked will take root and become firmly entrenched which can be destructive to the pluralistic economy in Malaysia. Nevertheless, with strong commitment to apply the CSR principles of supply chain indigenization and diversity, these issues can be constructively transformed into a win-win environment. Disenfranchised groups can be incorporated back into the value chain. If no particular ethnic group is being marginalized, destructive conflicts can be minimized, if not fully prevented. This initiative to create supply chain diversity is not only an ethical solution but perhaps equally important is a more sustainable one.

**Conclusion: Diversity management, Motives, Constraints and the Future**

Seeing the huge potential benefits to be gained from workplace multiculturalism movement, the critical question is really how to promote diversity practice to a more widespread
level. Evidently, the government and significant players in the market should get involved and eventually take the lead; and the awareness should reach end consumers. Diversity management, therefore, should not be viewed as merely an concept but a viable strategy to improve social cohesion. Inevitably, Malaysia and perhaps the world need to answer the question: Why multiculturalism and social justice? Where do multiculturalism and social justice stand in the quest for higher profits and other conflicting functions of business?

Admittedly, the function of a business unit is to achieve profitability, in this pursuit, the company exerts and practices its social influence. Diversity management ensures wholesome working environment and social cohesion within which the businesses operate. Without a stable, harmonious diversity societal cohesion, businesses’ operations can suffer in the long run.

The implementation of diversity management is only possible if the awareness is encouraged and strengthened. It would be useful if ideals such as diversity and social justice are formulated into quantifiable units or key indicators in order to be integrated into business practice. Having achieved that goal, the government has to monitor these indicators in the form of audit by a third party or certifying government agency. Otherwise, such initiatives will remain piecemeal and fragmented if not rhetorical. So far, the diversity management movement is largely driven by self-regulation and CSR initiatives from big businesses.

The important link to a better and socially just international trade relationship lies in training of future business leaders towards the importance of diversity management and the philosophy of inclusive-integrative management. In a pluralistic economy such as Malaysia, this approach is increasingly critical in the quest for best talents regardless of their ethnicity, origins and nationalities. Workplace discrimination indicates talents untapped and potential under-developed; such as unmet skill-sets and unfulfilled potentials, which eventually leads to departure and undesirable retention rate. In the academia circle, the attention has changed from that of enforcement to ethics training and education, from the early formative years (Hussin, Reevany Bustami & Ellisha Nasruddin, 2007) and more notably at MBA courses, a change from reactive to proactive approach as described by Cornelius et al (2007) and Cacioppe (2008) with a greater emphasis on synergy than competition. As an the 1925 Irish Nobel Prize winner states, “We are made wise not by the recollection of our past, but by the responsibility for our future.”
References


