

## **CORPORATE SOCIAL RESPONSIBILITY OF TOBACCO COMPANIES: A CONSUMER PERSPECTIVE**

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### **Abstract**

Investment in corporate social responsibility (CSR) by companies that have a bad reputation, namely those which produce tobacco has invited controversies from various quarters. Given the lack of studies that highlight the acceptance among consumers regarding CSR done by tobacco companies, a study has been conducted to identify their attitudes, responses and awareness toward CSR activities undertaken by tobacco companies. Semi-structured interviews were done on 33 working adult consumers and it was found that the majority of respondents were not in favor with such acts which they perceived it as a tactic to obscure tobacco companies' images. On the other hand, respondents who supported the existing CSR by tobacco companies were adhered to the principle of caveat emptor. The study also suggested that efforts should be carried out by companies producing tobacco through innovation so that their CSR activities are more aligned with the universal values of human life.

**Keywords:** Cigarette, Consumer, CSR, Tobacco

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### **1. Introduction**

The existence of tobacco and cigarette companies triggers the question of the reasonableness of CSR activities undertaken by the companies. While it is known that cigarettes have a negative impact on human health in particular, the act of tobacco companies i.e. by undertaking CSR has invited a huge controversy which is seen as a platform to maintain its operations.

Every year, death of about 6 million of world population is recorded as a result of smoking, including 600,000 individuals, classified as secondary smokers (WHO, 2015). It is expected that as many as 8 million lives will be lost by 2030 and 80% of the predicted number of deaths will occur in low and middle income countries. In Malaysia, the number of deaths recorded as a result of smoking is more than 10,000 people a year and contributes up to 12% of the main cause of death in this country. In Malaysia, law enforcement through the Food Act 1983 - Regulation of Tobacco Control (Amendment) Bill (Makanan, 2004) so far has not been effective to curb smoking among the population in the country.

There is no doubt that the tobacco industry has contributed to Gross Domestic Product (GDP) totaling RM 11.7 billion or 3% of total GDP (BAT, 2015). In 2004, a total of RM 1.8 billion in indirect taxes and direct taxes RM 683 million was collected from the industry pioneered by companies such as British American Tobacco (M) Berhad, JT International Tobacco (M) Sdn Bhd and Phillip Morris (M) Sdn Bhd. However, are these contributions can be justified by the increasing number of deaths and other physical and mental disabilities caused by smoking which later reduce the population and inhibit the development potential of a country in the long term?

Tobacco companies are known to invest a significant amount of money in the exercise of social responsibility which exceeded the amount spent by other corporations for the same purpose

(Chan, Patten, & Roberts, 2007). Among the social activities that are often sponsored by companies involved are developing basic infrastructures for local tobacco farmers' community, sponsoring anti-smoking campaigns among adolescents and preserving the environment. It is further complicated when the annual report published by the major tobacco companies in Malaysia has been awarded as the best annual report in several awards programs jointly organized by professional bodies (ACCA Malaysia, 2015; MICPA, 2015]. The guidelines used in nominating annual reports of companies were also questioned by various parties, especially non-governmental organizations and think tanks (Phang, 2007). Among the issues highlighted are aspects of corporate accountability were not assessed holistically although key indicators such as the Global Reporting Initiative (GRI) were used in the assessment process which certainly led to an unrealistic assessment because not all the information were reported particularly those which are demanded by the Ministry of Health (Ayob, 2007).

Studies on the effect of CSR on consumer behavior has been getting attention among researchers. Among the issues involved are social effects of corporate activity on the satisfaction of users (Luo & Bhattacharya, 2006; McDonald & Rundle-Thiele, 2008) the intention to buy (Arli, Rundle-Thiele, & Lasmono, 2015; Nanda, 2015), and media habits of consumers (Branstetter et al., 2015). However, there has been lack of studies which take into account the views and opinions of consumers on issues related to CSR undertaken by the controversial companies (Beddewala & Fairbrass, 2015) such as tobacco companies in the country. As consumers are among the most important companies' stakeholders who are able to form the aggregate effect through their purchasing behavior in the market (Stern, 1999; Stern, 2000), their views are therefore needed in justifying the appropriateness of social responsibility undertaken by the tobacco companies. It is also important to consider their views since consumers do have rights that need to be preserved including the right to obtain secure goods and services which are not detrimental to health and life of mankind (KPDNKK, 2015).

## 2. Literature Review

CSR among companies has become the main focus of researchers (Rodriguez et al., 2006). However, the question of whether this practice helps companies in the acceptance among stakeholders is still not fully answered (Beddewala & Fairbrass, 2015; Mohan, 2006), especially those companies that turned out to produce products that cause harm to consumers. CSR was originally started with the concept of philanthropy, which then evolved into fulfilling several motives; financial, stakeholders, and legitimacy (Siwar & Harizan, 2007; Siwar & Harizan, 2008). Philanthropy concept rooted from moral principles of belief about the proper way to act when given the option to act without coercion (Wilson, 1993). Orientation act of generosity can be seen in the form of program activities and charity and activism aimed at individuals, groups, and the issues (Josie & Ibrahim, 2002).

Financial motive for CSR is based on the relationship between CSR activities impact on the financial performance which taking into account the needs of cost, market and reputation [24]. Financial motive is used in building the reputation and competitive advantage through brand awareness and return on investment to shareholders and such motive underlies CSR of world famous tobacco companies, Philip Morris. The company has donated a sum of USD 75 million for charitable causes while USD 100 million was spent solely for exposing and announcing the donations (Siwar & Merican, 2004). This illustrates that the company is not carrying out social responsibility solely on the grounds of ethics and philanthropy, but to generate long-term benefits.

From the perspective of stakeholders, the management of organizations claimed to be carrying out activities that are expected by the parties which have interests in the organization and reporting

such activities to the parties involved (Alakent & Ozer, 2014). Stakeholder analysis includes organizational accountability that goes beyond the limits of economic or financial performance, including voluntary disclosures beyond the mandatory level such as intellectual, community or environment achievements. In reaching a balance to meet the demands of every stakeholder, the Triple Bottom Line concept has been widely adopted by researchers West (Elkington, 1994). This concept emphasizes the equal division of labor between the three key environmental sustainability of economic, environmental and social. In other words, the company must also improve environmental quality and social life other than purely targeting profits.

Legitimacy motive is closely related to the perspective of stakeholders. According to legitimacy theory, organizations need to operate consistently and in line with the values and norms of society (Guthrie et al., 2004) including laws. CSR is not only seen as a means of compliance with laws and regulations that regulate the direction of a company, but also as a system of values that should be applied within the operation of a company ((Siwar & Merican, 2004; Abdul-Munid, Yusoff, & Nordin 2007). Legitimacy motive is also used by the world famous tobacco companies; British American Tobacco and Philip Morris in order to avoid legal action imposed on them (Beddewala & Fairbrass, 2015; Siwar & Merican, 2004). By using tactics such as conducting anti-smoking campaigns.

All of the motives described are closely interlinked with each other. It covers all CSR management stages; planning, implementation and monitoring. In order to obtain an overview and understanding of CSR as a whole, it is necessary to analyze the motives underlying CSR activities by tobacco companies from consumers' perspectives which is among the most important stakeholders. Therefore, the research questions are: "What are the views of consumers on CSR carried out by tobacco companies?" The research questions will further investigate: i) consumers' attitudes, responses and awareness of motives underlying CSR activities carried out by tobacco companies and ii) any recommendations that would maintain or improve the existing harmony between the ideal CSR practices and long-term survival of tobacco companies.

### **3. Methodology**

There were two main methods of conducting this study; content analysis and semi-structured interviews. A content analysis was conducted by reviewing the findings and issues raised through journal articles, the tobacco company's annual report, independent bodies' reports and websites. Semi-structured interviews were conducted to obtain the views of consumers regarding social responsibility undertaken by the tobacco companies. For the purpose of interview, thirty three working adult consumers were selected as respondents through purposive sampling method (Silverman, 2006). The results of the interviews were recorded for cross-case analysis according to the initial theme that was developed based on open coding. This was done by filtering the transcript to generate the initial code that was used to categorize the data so that the overall characteristics of the phenomenon under study can be identified and categorized (Strauss, 1999).

### **4. Findings and Conclusions**

Of the 33 working adult consumers who have been interviewed, 11 of them are male and the rest are female with age ranges from 23 years to 38 years, representing major races in Malaysia and originated from various states in the country. The majority of respondents (60%) were not in favour with CSR by tobacco companies as compared to those who are in favor (20%) and those who opted to be neutral (20%). Among the reasons given by respondents who are not in favor with CSR by tobacco companies are:

i) CSR carried out by the companies of tobacco was seen as a way to obscure the bad image or reputation of companies itself, which is known to cause harm and death of people as a result of smoking.

*“It is unethical because tobacco companies are trying to change their negative perception among public by doing CSR.”*

*“Although the company is carrying out its social responsibility very well, it is against the ethics of marketing.”*

*“Although social responsibility yields a positive impact, it remains as a 'mask' for companies in order to market their products without any interference from the government and community. It can be considered as an act of bribery to recover the bad reputation of tobacco companies.”*

ii) Religious reasons which ban smoking by looking into the root idea of cigarette itself.

*“The majority of the religions of the world agree to refuse smoking.”*

*“Islam has laid the guidelines to be observed by entrepreneurs in marketing their product. If the product is harmful to users, then it cannot be marketed.”*

*“There are many other resources that can improve the living standards of local population (whose living are depended on tobacco cultivation) and rural infrastructures and not just resources gained from producing tobacco.”*

iii) No immediate activities that can be counted as CSR by the companies when the effects of smoking violate the fundamental rights of human life outright.

*“Tobacco companies failed to meet human rights matter because they do not support the actions of public welfare.”*

iv) The benefits received by the communities through community programs sponsored by tobacco companies cannot outweigh the harm done to the wider society resulted from smoking.

*“Although tobacco companies argued that the development of infrastructure and other improvements in its operating environment such as schools, it is inadequate to be acknowledged as social responsibility. The second generation of workers and their families are the victims of such strategies. Advertising of tobacco company brand is the most significant threat to children and families of affected workers.”*

*“The benefits of social responsibility undertaken could only be enjoyed by locals. The (poor) image of tobacco companies cannot be neutralized at a greater neighborhood.”*

v) The main aim of tobacco companies is making profit and the government has to bear medical costs of patients due to the effects of smoking.

*“The objective is only for company to achieve profitability even by selling anything harmful to health.”*

*“Banning tobacco companies can save money spent by the government on medical.”*

*“Social responsibility is undertaken to gauge tobacco companies’ financial capability as well as attracting investors to invest in their companies.”*

Respondents who did not encounter any issues or problems with CSR done by tobacco companies hold to the doctrine of caveat emptor which transfers the burden of responsibility on consumers to evaluate the product before purchasing and accepting the condition of a product (Legal Information Institute, 2015). The doctrine stresses that the company has played its necessary role by informing consumers about the impact of smoking on their lives and it is up to consumers whether to use or not to use the product.

*“The company did not violate any existing ethical because all consumers are aware of the contents of tobacco and cons for each purchase made.”*

*“The decision to buy and smoke is in the hands of the buyer.”*

Among those who gave negative views of CSR by tobacco companies, there were also respondents who suggested some recommendations to the companies of tobacco so that it will be easier for them to be accepted by society. Among these are sponsoring medical costs of smokers and patients who are suffering from the effects of smoking. Besides, there were also respondents who suggested that tobacco companies to invest in research and development of alternative products to replace its flagship product, i.e. cigarettes and the like for example by producing beneficial drugs that can be generated through scientific studies on tobacco.

*“Funds allocated for companies’ social responsibility can be used to bear medical costs of patients and curing lung cancer caused by smoking. The company can also withdraw funds for research to find effective methods or technologies to mitigate the negative effects of smoking. It can improve the image of the company and is seen as more ethical in marketing their products.”*

*“Stop growing tobacco for smoking but keep cultivating tobacco for medical purposes such as the production of sedative allowed, diabetes drugs and antibodies, anti-inflammatory, curing leech bite, and latest, curing AIDS.”*

Generally, the findings showed that the majority of respondents were not in favor with CSR undertaken by tobacco companies which are said to be hypocritical. CSR activities by tobacco companies are seen as manipulating values and belief systems by simply creating a new convincing perception in order to validate their existing operations so as to prevent the company from lawsuits as stipulated by past study (Alakent & Ozer, 2014).

Some consumers adhered to the teachings of religion and morality in social activities in justifying CSR done by tobacco companies. For example, Islam, as professed by the majority of the population in Malaysia stresses that there should not be a clash between Islamic teachings and the motives underlying company's CSR (Kirat, 2015). Companies need to consider their individual actions in a holistic manner, including assessing whether their products could improve the well-being of consumers who consumed the product (Dusuki, 2008). If not, the social responsibility done was not significant and void altogether. Furthermore, in some Islamic countries such as UAE and Malaysia itself, a fatwa was issued stating that smoking is *haram* or prohibited as it causes harm to smokers (JAKIM, 2015).

Theoretically, the findings enriched the literature on consumers’ acceptance towards CSR done by companies producing harmful products. Other implications of the study included providing feedback to stakeholders, especially governments, non-governmental organizations, consumer

associations and human rights groups regarding the current consumers' attitudes, responses and awareness towards CSR activities undertaken by tobacco companies. Tobacco companies are also urged to modify their strategies in order to meet the norms and standards prescribed in the community or by religion either by not producing cigarettes and the like as their main products or carrying out social activities such as sponsoring research and development of alternative products to replace cigarettes and the like or absorbing medical costs for patients who are suffering from the effects of smoking. The findings also aimed to spread awareness among consumers about the scenario of CSR in the country particularly on motives underlying CSR activities by tobacco companies in order to get its main operations approved and accepted by the community.

Among limitations identified in the study is not taking into account the profile of smokers among selected respondents. Therefore, the findings of the study are expected to be refined in the future so that differences in responses between individual smokers and non-smokers toward CSR activities undertaken by tobacco companies can be obtained.

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