The Development of Corporate Legitimacy Measurement for Government-Linked Companies in Malaysia

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Abstract

The aim of this paper is to develop the measurement of corporate legitimacy among Government-linked Companies (GLCs) in Malaysia. Corporate legitimacy is important for determining the survival of the corporation. The term of legitimacy can be classified into three different aspects, namely; political, economic and social legitimacy. Political legitimacy indicates the right of govern and rule; economic legitimacy reflects on success through product selling, customers' satisfaction and providing better services and goods. However, in the corporate sectors, corporate social responsibility is used as a platform not only to gain economic legitimacy, but most importantly to achieve social legitimacy. Social legitimacy focuses on corporation as a societal institution that is more complex by combining the social norms, values and expectation. With the above argument, this paper explores how corporate social responsibility (or corporate responsibility) can be used to show societal acceptance reflecting their corporate legitimacy. The corporations are expected to be socially acceptable; according to social norms, values and beliefs. The growth of the corporation has faced a number of challenges in gaining and maintaining their existence. While the corporations are expected to deal with the challenges effectively, the corporation must also be relevant in the eyes of the stakeholders. To establish this, corporation emphasized on gaining and maintaining legitimacy through various mechanisms. The principles of legitimacy are related to the conformity to the norms, values and expectation of their stakeholders' engagement through corporate social activities. The study employed a cross-sectional sample survey designed to collect data from a pre-selected list of non-governmental organization (NGOs) obtained from the Registrar of Societies, Malaysia. From a list of about 22,000 societies, 377 were shortlisted covering five categories of societies; community welfare, education, sport, social and recreation, business and trade union. This study measured three dimensions of corporate legitimacy comprising pragmatic, moral and cognitive legitimacy. Using Partial Least Square-Structural Equation Modeling (PLS-SEM), this study found that there is high level of corporate legitimacy from the

perspective of NGOs, which indicated that the NGOs highly view the corporate legitimacy of Malaysian GLCs through their corporate responsibility activities.

Keywords: *corporate legitimacy, corporate responsibility activities, Government-linked Companies, non-governmental organization*

INTRODUCTION

As corporations are becoming more aware of the need to engage in corporate responsibility and also being compelled in that direction through coercive and normative forces, it is important that corporations' engagement with their stakeholder (or non-governmental organization) to develop and create corporate responsibility values. In that sense, corporation must seek legitimacy to receive continuous support from their stakeholders. Minahan (2005) explained that legitimacy reflected the credibility of corporations and allow them to have access to resources that are needed for survival and development. Government-Linked Companies [*] (GLCs) without legitimacy tend to be ineffective in attracting grants, subsidies and sponsorships (Suchman, 1995). It is crucially imperative to understand legitimacy because it may provide insights into how the corporation survives. Stryker (2000) postulated that an organization must gain internal and external acknowledgment to achieve legitimacy.

The concept of legitimacy can be classified into three different aspects, namely; political, economic and social legitimacy. Political legitimacy refers to the right to govern and rule which is indicated by the popular acceptance of authority through the policies, law, and system of government that secures political stability. This is in contrast with economic legitimacy, which is indicated by the economic success through product selling, customers' satisfaction, and providing better services and goods. In the corporate sectors, corporate responsibility (CR) is used as a platform not only to gain economic legitimacy, but most importantly to achieve social legitimacy. Social legitimacy focuses on corporation as a societal institution that is more complex by combining the social norms, values and expectation.

Corporation that lose its legitimacy may find it difficult to maintain the process of social exchanges, as its partners do not rely on its compliance with social rules. From a sociology perspective, legitimacy can also be understood as the conformation with social norms, values and expectations (Oliver, 1996). Scott (1987) viewed corporations

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[*]According to Khazanah National Berhad, GLCs are defined as: "companies that have a primary commercial objective and in which the Malaysian Government has a direct controlling stake. Controlling stake refers to the Government's ability (not just percentage ownership) to appoint BOD members, senior management, make major decisions (e.g.; contract awards, strategy, restructuring and financing, acquisitions and divestments etc.) for GLCs either directly or through GLICs" (http://www.khazanah.com.my).

as rational systems − social machines designed efficiently to transform material from inputs into outputs. In the case of GLCs, in order to be more relevant in the eyes of stakeholders, they must be able to meet the expectations and play their roles as societal institutions. In spite of the above arguments, there is an important question to be answered; the needs of legitimacy. GLCs seek legitimacy for many reasons. This includes drawing the conclusions on the importance, difficulty, and effectiveness of legitimation efforts which may depend on the objectives against which these efforts are measured. Two particularly important dimensions in this regards are: (a) the distinction between pursuing continuity and credibility; and (b) the distinction to seek support (passive and active supports) (Suchman, 1995).

With the above argument, this paper aims to develop corporate legitimacy measurement for Government-Linked Companies in Malaysia. The process to build the ideal corporate legitimacy measurement is determined through the corporate social responsibility (or corporate responsibility) among GLCs in Malaysia.

Understanding Corporate Legitimacy

Prior studies have evidently noted the importance of corporate legitimacy (Ladisma, 2016; Reimann, Ehrgott, Kaufmann & Carter, 2012; Gifford, Kestler & Anand, 2010; Levi, Sacks &Tyler, 2009; Bansal & Clelland, 2004; and Massesy, 2001). The next discussion further illustrates an assortment of views to understand corporate legitimacy. Suchman (1995) highlighted that corporate legitimacy is necessary to ensure access to the resources for the organization to survive. Although the organization resources can come from many ways, Gupta, Dirsmith and Fogarty (1994) suggested that it is necessary for the organizations to adopt and understand the norms of their wider environment and society. This is because the bigger the organization that operates, the greater dependency for its survival through the support of external constituents surrounding it. At this stage, the norms and values of the society are being met. However, conformity to accept social norms can be a tricky challenge to be tackled particularly when the organization and the external domains are in a constant state of flux.

Specifically, very few researches have been conducted on corporate legitimacy (Ladisma, 2016; Reimann, Ehrgott, Kaufmann & Carter, 2012; Gifford, Kestler & Anand, 2010; and Minahan, 2005). Study by Hager, Galaskiewicz, Bielefeld and Pins (1999), suggested that corporate legitimacy played a crucial role to understand the organizational survival. If the organization is perceived as unimportant or non-essential, it is considered as an important factor in deciding to close down its operation. Kostova and Zaheer (1999) supported that there is a need to study and understand the roles played by both internal and external stakeholders. Their roles are important to

determine the direction of the organization that reflects the needs of the society (Selvarajh *et al.*, 2012; Rich & Weaver 1998; Smith & Deering, 1984; Schlozman & Tierney 1986). Most studies focussed on how the external and internal legitimacy are gained and maintained as both factors are equally important. Meyer, Scott and Strang (1987) included the analysis of the interaction between external funding and internal structures, and control systems in arts organizations. The findings showed a significant discovery on how internal and external factor shaped the legitimate organization.

Meanwhile, a study conducted by Ashforth and Gibbs (1990) ascertained that legitimacy is always challenging. There are issues beyond the control of the organization. The fluctuating demands, perception and complex expectations that come from the stakeholders contribute to the chaotic status quo within the organization. In order to understand the challenges of legitimacy, Ashforth and Gibbs (1990) explained three reasons for the corporation to be legitimate in the eyes of the stakeholders. Table 1 illuminates briefly.

Table 1:
Legitimation as a Function of the Purpose of Legitimation

	Purpose of Legitimation		
	To Extend Legitimacy	To Maintain Legitimacy	To Defend Legitimacy
Legitimacy	Problematic	Non-problematic	Problematic
Constituent scrutiny	High	Low	High
Intensity of legitimation activities	High	Low	High
Mix of legitimation activities	Proactive:	Routinized:	Reactive:
	Substantive and symbolic	Substantive and symbolic	Primarily symbolic (at least in short-run)

Source: Ashforth & Gibbs (1990). The Double-Edge of Organizational Legitimation. p.182.

Firstly, the purpose known as *extending legitimacy* which occurred when new activities, structure or process were first introduced. The concept of "liability of newness" will be experienced by the corporation especially when little is known, cause-and-effect and whenever the society is doubtful. Secondly, *maintaining legitimacy* when the corporation has adequate activities that contribute to its existence, manipulating symbols and avoiding potential conflicts that may jeopardize the legitimation process. Thirdly, *defending legitimacy* which is practised when threatened from its external factors. At this phase, significant activities are crucial to be introduced to fight the conflicts from external challenges. To conclude Ashforth's and Gibbs' (1990) discussion, there are two main points that can be digested; first, the more challenging the organization's legitimacy, the more scrutiny and the lower expectations from the constituents; and the more dependent the organization is towards limited resources, the more complicated the legitimacy become.

Types of Legitimacy: Normative (Moral), Cognitive and Pragmatic Legitimacy

The following discussion explains the different types of legitimacy. It is important to distinguish each type to get a clear picture of legitimacy. As stated earlier, this paper defines legitimacy as a general perception or assumption that the organizational behaviours are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions (Suchman, 1995). Studies by Ruef and Scott (1998), Zimmerman and Zeitz (2002), Jee (2010) and Ladisma (2016) have agreed on three types of legitimacy based on the institutional theory: regulatory legitimacy, normative (moral) legitimacy, and cognitive legitimacy. Along with these types of legitimacy, Suchman (1995) added the pragmatic legitimacy. However, each type of legitimacy rests on somewhat different behavioural dynamics. Table 2 shows prior studies that had applied and examined the four types of legitimacy.

Table 2:
Types of Legitimacy

Types of Legitimacy	Operationalization	Applied
Regulatory Legitimacy	An organization is legitimated when it follows regulatory process, rules, standards, and expectations created by governments or professional associations.	Financial legitimacy (Deephouse & Carter, 2005)
Normative (Moral) Legitimacy	An organization is legitimated when it follows social values and standards in which the organization exists.	Managerial legitimacy & technical legitimacy (Reuf & Scott, 1998) Organizational legitimacy (Massey, 2001)
Cognitive Legitimacy	An organization is legitimated when it is perceived as taken-for-granted.	N/A
Pragmatic Legitimacy	An organization is legitimated when it satisfies an individual or the public's interests.	N/A

CORPORATE RESPONSIBILITY AS ANTECEDENT TO CORPORATE LEGITIMACY

Earlier studies on corporate responsibility had proven that the existence of corporates focused mainly on how to maximize their profits for the benefit of their shareholders (Friedman, 1970) although corporate responsibility may not directly reflect the nature of being profit-oriented. But, through the perspective of capitalist societies, business firms must earn profits (Sundaram & Inkpen, 2004). McWilliams and Siegel (2001) supported this perspective because the rationale of corporate to invest in corporate responsibility initiatives is to earn extra profits. The former chairman of Marks and Spencer said that; *"business only contributes fully to society if it is efficient, profitable and socially responsible"* (Md Zabid & Saadiatul, 2002).

The statements above are relevant to the corporate world. The interesting part is that, the notion of "socially responsible" comes after the corporates are classified as efficient and they are making profit. At this point, corporates may have started to think to contribute to the society. This may also be implicitly assumed as true within many empirical studies on corporate social performance – corporate financial performance relationship; it has been argued that the link between corporate and society is *"inherently normative, because it seeks to explain what corporations should or should not do on behalf of the social good"* (Swanson, 1999, p. 506). Whether the corporate like it or not, we all live and share the same environment. There is a mutual impact between corporate and society, and there is also a need to understand their expectations from the corporate's perspective (Bronn & Vrioni, 2001). Achieving the corporates' objectives must come together with meeting the demands of their stakeholders (Heal, 2004).

In the eyes of their stakeholders, corporate responsibility has become a platform for corporates to share some values. Peloza and Shang (2011), associated values as experience, either good/bad, positive/negative, or favourable/unfavourable that might indicate personal preferences. Every corporate responsibility activity is to instil some values to their stakeholders. At the same time, corporate responsibility had been used as a tool to respond to the demands from their stakeholders (Ladisma, Hazman Shah, & Lokman, 2016). There is a need to ensure that the corporate activities are aligned with *"broader community values"* (Swanson, 1999: 517). The corporate must act consistently *"with the moral foundations of society"* (Epstein & Votaw, 1979:3). These bring about Friedman's (1970) intention who concluded that corporates have to conform *"to the basic rules of the society, both that embodied in law and those embodied in ethical custom"* (p.3).

In other words, corporate responsibility is the indication that this social obligation can be considered as social contracts in which corporates are accountable towards the demands and expectations from the society. It has also been argued that corporate responsibilities act as a tool in legitimizing corporate activities and enhancing the reputation and image of the corporate. Evidence from empirical research suggested that the more corporates contribute towards social obligation, the better their reputation. Bronn and Vrioni (2001) proved that positive corporate performance is associated with better reputation. Responsive corporates have significant impact towards their reputation and image.

METHODOLOGY

Research Paradigm

According to Guba and Lincoln (1994) paradigm is *"the basic belief system or worldview that guides the investigator, not only in choices of method but in ontologically and epistemologically fundamental ways"* (p.105). There are four paradigms outlined by Guba (1990), they are; positivism, post-positivism, critical theory (ideology) and constructivism. However, according to Guba (1990), none of these four is more important than the others. It is a paradigm of choice. It gives an alternative and each has their own merits. In sum, the positivist paradigm and quantitative approach best reflect the research paradigm of this paper for the following reasons. Firstly, this paper was designed as a cross sectional study that tested the relationship between the corporate responsibility activities and the corporate legitimacy. The data analysis which carried out indicated as value-free and thus limits the data changes. The data is considered as "one-way mirror" (Healy & Perry, 2000). Secondly, this paper had also developed the variables from extensive literature review, then applied with the procedure of objectivity to construct the measurement, and tested the reliability and the validity of data.

Research Design

This study employed a cross-sectional survey study where the data gathered just once or in one-shot manner to examine the (association/relationship).

Unit of Analysis

The unit of analysis for this study is the organization i.e. the registered NGOs with the Registrar of Societies (ROS) as at December 2014.

Population

The population of this study consisted of NGOs that had registered with ROS as at December 2014. The data was provided by ROS and only NGOs that registered with it were selected as the population. There were 22, 119 NGOs involved which represent various interests such as community welfare, education, sport, social and recreation, business and trade union.

Measurement of Corporate Legitimacy

This study had adopted and adapted the measurement of corporate legitimacy which has been extensively used and tested in previous researches (Suchman, 1995; Patel & Xavier, 2005; Palazzo & Scherer, 2006; Ruef & Scott, 1998; Ioan & Sandu, 2009; Zimmerman & Zeitz, 2002; and Jee, 2010). Table 3 shows the central statement capturing the essence of the meaning for each facet of corporate legitimacy.

Table 3:
Measurement of Corporate Legitimacy - Dependent Variables

Corporate Legitimacy Dimension	Measurement	Element of construct
Pragmatic	• Audience based self-interest • Self-interest of the legitimacy authority (Bitektine, 2011; Johnson & Holub, 2003) 　　○ Exchange, influence and dispositional legitimacy	Three elements constructed: • Conform to demands • Select markets • Advertise
Moral	• Positive normative evaluation of the organisation and its activities • How favourable (or unfavourably) the organization is viewed by its constituency (Greenwood *et al.*, 2002; Rindova, Pollock & Haywood, 2006) 　　○ Consequential, procedural, structural and personal	Three elements constructed: • Conform to ideals • Select domain • Persuade
Cognitive	• Taken-for-granted cultural • Lacking specific judgement and is by definition related to external legitimacy (Tost, 2011) • Organizational activity is predictable, meaningful and inviting	Three elements constructed: • Conform to models • Select labels • Institutionalize

Table 3 shows the extensive literature that explained how the variables have been defined and the number of dimensions involved (Bitektine, 2011; Johnson & Holub, 2003; Greenwood *et al.*, 2002; Rindova, Pollock & Haywood, 2006; and Tost, 2011). Based on prior studies mentioned above, the discussion below explains the measurement items for corporate legitimacy.

Measurement Items for Corporate Legitimacy
    Dimension 1: Pragmatic legitimacy
- Respond to the needs of customers
- Have comprehensive cooperation among GLCs
- Build reputation of GLCs
- Build honest GLCs
- Share GLCs values
- Build trustworthy GLCs
- Build wise GLCs

- Advertise product/services of GLCs
- Project a positive image of GLCs

Dimension 2: Moral legitimacy
- Produce proper outcomes
- To instil corporate responsibility activity in institutions
- Making a good-faith effort to achieve value
- Build positive moral value
- Define goals
- Demonstrate success
- GLCs is a worthy organization to support

Dimension 3: Cognitive legitimacy
- Replicate standards
- Formalize operations
- Professionalize operations
- Seek certification
- GLCs activities are appropriate
- Popularize new models
- Standardize new models
- GLCs activities are clear

The selection of three dimensions of corporate legitimacy, namely; pragmatic, moral and cognitive were based on unique criteria that they represent. As Suchman (1995), Ruef and Scott (1998), Zimmerman and Zeitz (2002), and Jee (2010) explained, corporate legitimacy is referred to as the general perception or assumption that the organizational behaviours are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions. Each dimension reflected and represented the corporate legitimacy definition. Pragmatic legitimacy is the outcome of self-interested of individual as an audience (Suchman, 1995); moral legitimacy emphasizes on rules and values of society (Zimmerman & Zeitz, 2002) and cognitive legitimacy is indicated by the understanding of the societal values such as appropriate, proper and desirable. Brinkerhoff (2005) classified that the structure, procedures and activities are "making sense". As a conclusion, all three dimensions of corporate legitimacy are the most precise to measure corporate legitimacy among GLCs.

Data Analysis

For the purpose of data analysis and hypothesis testing, the data collected had been keyed-in into the Statistical Package for Social Science (SPSS) software and transformed to Comma Separated Values File (CSV) for further analysis using Partial Least Squares-Structural Equation Modeling (PLS-SEM).

RESEARCH FINDINGS

There are six components to explain the characteristic of NGOs. There were 266 NGOs selected using purposive sampling method that involved with corporate responsibility activities of GLCs. All NGOs selected must be registered with Registrar of Societies (ROS) as at December 2014.

Profile of Respondents (NGOs)

There were five characteristics of NGOs highlighted in the study, namely; types of organization, date of establishment, number of members and staffs and sources of fund. The data was presented using the frequencies and percentage. Table 4 and Table 5 illustrated in details.

Table 4:
Profile of NGOs (Types, years of establishment and members/staffs) (N = 266)

Characteristics	Frequency	Percent (%)
Types of organization		
Religion	19	7.1
Youth	25	9.4
Community welfare	112	42.1
Culture	6	2.3
Education	22	8.3
Politic	5	1.9
Sport	7	2.6
Women	11	4.1
Social & recreation	10	3.8
Business	20	7.5
Trade Union	7	2.6
Others	22	8.3
Date of Establishment		
Below 10 years	69	25.9
11 - 20 years	74	27.8
21 - 30 years	56	21.1
31 - 40 years	23	8.6
41 - 50 years	19	7.1

51 - 60 years		9	3.4
61 - 70 years		10	3.8
71 - 80 years		3	1.1
81 - 90 years		1	0.4
91 years and more		2	0.8
Mean	*: 1990.76*		
Std. Deviation	*: 18.787*		

Number of Organization Members

0-200		138	51.9
201-400		26	9.8
401-600		17	6.4
601-800		7	2.6
801-1000		16	5.3
1000 and more		64	24.1
Mean	*: 1846.24*		
Std. Deviation	*: 5629.981*		

Number of Staffs (Salaried and Volunteers)

0-50		179	67.3
51-100		39	14.7
101-150		9	3.4
151-200		5	1.9
201-250		4	1.5
251 and more		30	11.3
Mean	*: 149.76*		
Std. Deviation	*: 473.580*		

Table 4 shows the type of organizations. Out of the 266 NGOs, 42.1% (n = 112) were community welfare. The remaining 57.9% were from various types of groups such as religious, youth, culture, education, politic, sport, women, social and recreation, business, trade union and others. The majority of the NGOs 74.8% (n = 199) were within the age of less than 30 years and 25.2% (n = 67) of the NGOs were within the age of more than 30 years. The sample was therefore predominantly established as less than 30 years. Furthermore, the mean value for the years of establishment of the NGOs was 1990.76 while the standard deviation was 1.152. The data was not normally distributed with skewness -1.460 and kurtosis 2.737 (Pallant, 2011 suggested that the skewness and kurtosis values must be between -1 or +1 to be considered as normally distributed). In terms of numbers of members, more than 51% (n = 138) or more than half of the NGOs were having less than 200 members. About 24.8% (n = 66) of the NGOs had members between 201 − 1000 and the remaining 24.1% (n = 64) had above 1000 members. In addition, the mean value for the numbers of membership was 1846.24 and the standard deviation was 5629.981. The data was also non-normally distributed with the skewness and kurtosis values more than -1 or +1. While for the number of staff in NGOs, 67.3% (n = 179) of them had between 0 − 50 staff, followed by 14.7% (n = 39) of NGOs with 51 − 100 staff. Then 11% (n = 30) of them had 251 staffs and above, and finally about 6% (n = 18) between 101 − 250 staffs. The mean

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value was 149.76 and the standard deviation was 473.580. The distribution of number of staffs was also non-normally distributed with the skewness and kurtosis values more than -1 or +1.

Table 5 shows that there were four sources of fund, namely; government allocation, self-funded, donations and others. However, there were other sources of fund such as fund from international body, grants and many others.

Table 5:
Sources of Fund (N = 266)

Proportion based on percentage	Government allocation		Self-funded		Donations		Others sources	
	N	%	N	%	N	%	N	%
0 percent	92	34.6	74	27.8	43	16.2	238	89.5
1 - 25 percent	72	27.1	86	32.3	45	16.9	18	6.8
26 - 50 percent	74	27.8	55	20.7	86	32.3	5	1.9
51 - 75 percent	16	6.0	18	6.8	34	12.8	1	0.4
76 - 99 percent	2	0.7	9	3.4	29	10.9	0	0
100 percent	10	3.8	24	9.0	29	10.9	4	1.5

As stated in Table 5, none of the four categories of fund sources dominantly funded the NGOs. About 27% were funded by the government allocations, which contributed between 1 -25 % (n = 72) and 26 – 50% (n = 74). Only 3.8% (n = 10) NGOs had received 100% government allocation. The remaining NGOs received between 0.7% - 6% of the government allocation. More than 34.6% (n = 92) were not receiving any funds from the government. Self-funded showed that more than 32.3% (n = 86) NGOs received funds between 1 – 25 %, and 9% (n = 24) NGOs depended on these sources. More than 27% (n = 74) of NGOs were not using this method as sources of fund. Donations showed that more than 32% (n = 86) of NGOs used this as their source of funds. More that 10% (n = 29) NGOs received funds from this category. The remaining between 10% - 16% were dependent on donations. Lastly, other sources showed that only 1.5% (4) NGOs were receiving fund from this category. The data also showed that more than 89% of NGOs were not depending on this method as their source of funds.

Goodness of the measurement

The following discussion is to highlight the process of measurement model, construct validity, reliability, normality and response bias test. Figure 1 illustrates the structure model.
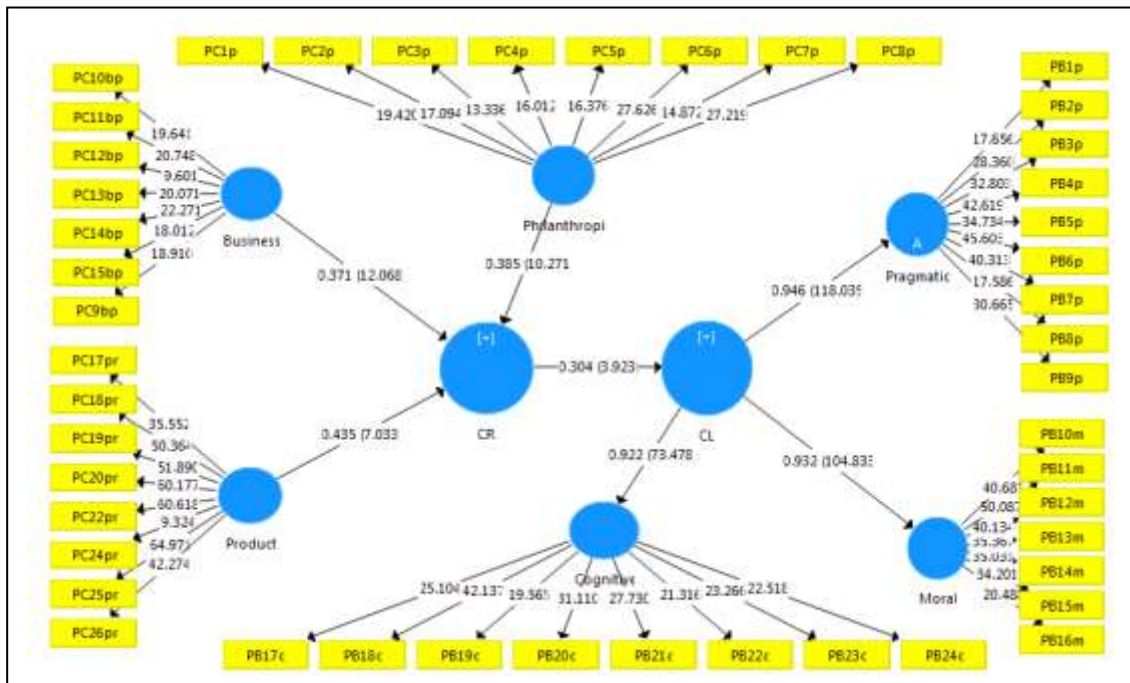

Figure 1: Structure Model

Measurement Model

Table 6 explains the measurement model that showed items loading, average variance extracted (AVE) and composite reliability. Fornell and Larker (1981) proposed AVE as a measure of the shared or common variance in a Latent Variable (LV). LV is also known as hidden variables opposed to observable variables that are not directly observed. The relationship between AVE and LV is captured in the amount of variance due to measurement error (Dillon & Goldstein, 1984). Reflective measurement model is a type of measurement model setup in which the direction of the arrow is from the construct to the indicator, indicating the assumption that the construct causes the measurement model of the indicator variables (Hair *et. al.,* 2014). Reflective indicators are represented as single-headed arrows pointing from the latent construct outward to the indicator variables; the associated coefficients for these relationships are called outer loading in PLS-SEM (Hair, Ringle & Sarstedt, 2011).

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Table 6:
Measurement Model

Construct	Items	Loading	AVE[a]	Composite Reliability
Corporate Legitimacy				
Pragmatic	PB1p	0.751	0.640	0.941
	PB2p	0.791		
	PB3p	0.818		
	PB4p	0.836		
	PB5p	0.845		
	PB6p	0.857		
	PB7p	0.835		
	PB8p	0.651		
	PB9p	0.798		
Moral	PB10m	0.833	0.672	0.935
	PB11m	0.864		
	PB12m	0.853		
	PB13m	0.837		
	PB14m	0.824		
	PB15m	0.806		
	PB16m	0.713		
Cognitive	PB17c	0.764	0.596	0.922
	PB18c	0.827		
	PB19c	0.767		
	PB20c	0.811		
	PB21c	0.768		
	PB22c	0.744		
	PB23c	0.736		
	PB24c	0.754		

[a] *AVE = Average Variance Extracted, both (AVE and composite reliability) NA (not applicable) for formative scale.*

Factor Analysis

In the process to develop construct validity and to identify the structure of relationships among variables, factor analysis allowed all variables to run simultaneously with the assumption that no distinction between the variables (IV and DV). Construct validity in Table 7 was performed using PLS-SEM. In achieving items reduction, Hair *et al.,* (2010) suggested that there are two guiding principles applied; first, identify the larger set of variables that is representative, and second, create the new set of variables to replace the original set of variables. To decide the right factor loading for each item, there are a few criteria of data that need to be considered, the criteria are:

- Factor loading $\geq .5$ were selected as factor loading. Hair *et al.*, (2010), loadings $\pm .5$ or greater is practically significant.
- the difference between loading $\geq .10$
- Factors meet a specific percentage of variance explained 60% and more (Hair *et al.,* 2010).

Table 7:
Factor analysis: Factor Loadings (bolded) and Cross Loadings

| Construct | Items | Corporate Legitimacy | | |
		Pragmatic	Moral	Cognitive
Factor 1: Pragmatic	PB1p	**0.751**	0.632	0.579
	PB2p	**0.791**	0.696	0.656
	PB3p	**0.819**	0.673	0.640
	PB4p	**0.836**	0.680	0.598
	PB5p	**0.845**	0.705	0.657
	PB6p	**0.857**	0.747	0.661
	PB7p	**0.835**	0.703	0.683
	PB8p	**0.651**	0.499	0.518
	PB9p	**0.798**	0.663	0.578
Factor 2: Moral	PB10m	0.718	**0.833**	0.694
	PB11m	0.714	**0.864**	0.683
	PB12m	0.691	**0.853**	0.634
	PB13m	0.692	**0.837**	0.600
	PB14m	0.678	**0.825**	0.621
	PB15m	0.699	**0.806**	0.645
	PB16m	0.602	**0.713**	0.685
Factor 3: Cognitive	PB17c	0.606	0.624	**0.764**
	PB18c	0.665	0.659	**0.827**
	PB19c	0.641	0.657	**0.767**
	PB20c	0.656	0.613	**0.811**
	PB21c	0.584	0.648	**0.768**
	PB22c	0.548	0.524	**0.744**
	PB23c	0.564	0.568	**0.736**
	PB24c	0.510	0.604	**0.754**

Discriminant Validity

The term discriminant validity refers to "*the extent to which a construct is truly distinct from other constructs by empirical standards*" (Hair *et al.,* 2011, 104). In other words, discriminant validity indicated the relationship of the off-diagonal term of R_{xx} and R_{yy} with R_{xy} (Fornell & Larcker, 1981). As the x variables and y variables are the indicators of different constructs, discriminant validity is exhibited only if all the correlations in R_{xx} and R_{yy} (measurement) are statistically significant and each of these correlations is larger than all correlations in R_{xy}. The results of discriminant validity of variables construct is presented in Table 8.

Table 8:
Discriminant Validity (Intercorrelations) of Variable Construct

Variable	1	2	3	4
1 CL	**0.743**			
2 Pragmatic	*0.944*	**0.800**		
3 Moral	*0.938*	*0.837*	**0.820**	
4 Cognitive	*0.912*	0.776	0.795	**0.772**

Note: Diagonal elements are the square root of the AVE of the reflective scales while the diagonals are the correlations between constructs

Reliability

There are two important reasons in performing reliability tests; firstly, to show that the research instrument is free from random error, and secondly, to indicate internal consistency (Pallant, 2011). Random error explained the error of measurement that defines the deviation of the mean value. Field (2009: 11) referred to reliability as "consistently across different situations". On the other hand, Nunnally (1978) as cited in Pallant (2011) recommended that instruments used in basic research should have the reliability of about .70 or better.

Table 9:
Reliability

Construct	No. of items	Cronbach's Alpha
Dependent Variable:		
Corporate Legitimacy	24	0.964
Pragmatic	9	0.929
Moral	7	0.918
Cognitive	8	0.903

Table 9 shows that all constructs showed satisfactory reliability results. Corporate legitimacy with the total of 24 items indicated 0.964 Cronbach's alpha (pragmatic 0.929, moral 0.918, and cognitive 0.903 Cronbach's alpha).

CORPORATE LEGITIMACY MEASUREMENT

The following empirical result is to examine the corporate legitimacy among GLCs from the NGOs' perspective. Table 10 shows that there were three components of corporate legitimacy, namely pragmatic, moral and cognitive legitimacy.

Table 10:
Perception of Corporate Legitimacy (N=266)

Variables	Minimum	Maximum	Mean	Std. Deviation
Corporate Legitimacy	2.00	5.00	3.905	.579
Pragmatic	1.78	5.00	3.947	.624
Moral	2.00	5.00	3.964	.625
Cognitive	2.00	5.00	3.808	.618

Note: All items used a 5 – points Likert scale with (1 = Strongly disagree and 5 = Strongly agree)

Table 10 explains the descriptive statistics highlighting the minimum, maximum, mean and standard deviation values for each component of corporate legitimacy and overall corporate legitimacy. The data showed that, the level of corporate legitimacy with the mean values at 3.905 and standard deviations at 0.579. Comparatively, moral legitimacy showed the highest values of mean with 3.964 and

0.624 standard deviation. The mean values for pragmatic and cognitive were 3.947 (0.624 standard deviation) and 3.808 (0.618 standard deviation) respectively.

Table 11 explains each factor of corporate legitimacy constructs. The interpretation of constructs indicated through the mean and standard deviation values.

Table 11:
Corporate Legitimacy Constructs (N=266)

Construct	Min.	Max.	Mean	Std. Deviation
Factor 1: Pragmatic	**1.78**	**5.00**	**3.947**	**.624**
PB1p - Respond to the needs of customers	1.00	5.00	3.951	.768
PB2p - Have comprehensive cooperation among GLCs	1.00	5.00	3.887	.798
PB3p - Build reputation of GLCs	1.00	5.00	3.985	.777
PB4p - Build honest GLCs	1.00	5.00	3.959	.825
PB5p - Share GLCs values	1.00	5.00	3.921	.756
PB6p - Build trustworthy GLCs	2.00	5.00	3.951	.733
PB7p - Build wise GLCs	2.00	5.00	3.981	.779
PB8p - Advertise product/services of GLCs	2.00	5.00	3.786	.848
PB9p - Project a positive image of GLCs	*2.00*	*5.00*	*4.105*	*.765*
Factor 2: Moral	**2.00**	**5.00**	**3.964**	**.625**
PB10m - Produce proper outcomes	2.00	5.00	3.820	.799
PB11m - To instill CR activity in institutions	2.00	5.00	3.857	.783
PB12m - Making a good-faith effort to achieve value	*2.00*	*5.00*	*4.023*	*.716*
PB13m - Build positive morel value	*2.00*	*5.00*	*4.079*	*.761*
PB14m - Define goals	*2.00*	*5.00*	*4.000*	*.727*
PB15m - Demonstrate success	*2.00*	*5.00*	*4.049*	*.753*
PB16m - GLC is worthy organization to support	2.00	5.00	3.917	.806
Factor 3: Cognitive	**2.00**	**5.00**	**3.808**	**.618**
PB17c - Replicate standards	1.00	5.00	3.763	.815
PB18c - Formalize operations	1.00	5.00	3.846	.764
PB19c - Professionalize operations	1.00	5.00	3.914	.760
PB20c - Seek certification	2.00	5.00	3.883	.776
PB21c - GLCs activities are appropriate	2.00	5.00	3.857	.798
PB22c - Popularize new models	1.00	5.00	3.680	.837
PB23c - Standardize new models	1.00	5.00	3.613	.849
PB24c - GLCs activities are clear	2.00	5.00	3.910	.815

DISCUSSION AND CONCLUSION

The main purpose of this paper is to determine the ideal corporate legitimacy constructs for GLCs from the perspective of NGOs in Malaysia. This paper presented three dimensions of corporate legitimacy constructs, namely; pragmatic, moral and cognitive legitimacy. Each different construct contributes uniquely to the development of corporate legitimacy measurement. The construct of corporate legitimacy among NGOs are dominantly influenced by its moral values, followed by pragmatic and lastly cognitive legitimacy. The corporate is legitimated when it complies with the norms and

values such as a fair treatment of the employees which can be conferred upon the firms operating within them, industry's standards, norms, practices and technology (Zimmerman & Zeitz, 2002). Views from resource-dependence theory mentioned that the moral legitimacy is achieved by the "right things to do" that will be judged by the general public (Suchman, 1995).

The corporation is considered legitimated when it does the right things, such as apologizing to the public for its operational mistakes (Jee, 2010). Moreover, moral legitimacy is also referred to as conscious moral judgments on the organization's output, procedures, structures and leaders. Suchman (1995) described the moral legitimacy of an organization as a result of explicit public discussions and in his view; corporates can win moral legitimacy only through their vigorous participation in these discussions. Besides, moral legitimacy also reflects a positive normative evaluation of the organization and its activities (Aldrich & Fiol, 1994).

The findings of this study also discovered that pragmatic legitimacy play significant role to construct corporates' legitimacy measurement. As the second ranked dimension, pragmatic legitimacy is related to corporates' strategies to ascribe their legitimacy to their stakeholders and the wider public. Through this approach, corporates (GLCs) are challenged to influence individual's assessment of the usefulness of their operations, structure and leadership behaviour towards the society. To gain legitimacy in a pragmatic way, companies create strategies to provide direct benefits, for instance, management roles for their constituents. In other words, gaining legitimacy through pragmatic dimension is how the GLCs used strategic manipulation of the perceptions of their stakeholders (Ladisma *et al.,* 2016).

The last component to develop ideal corporate legitimacy is cognitive legitimacy. Cognitive elements are more basic, providing frameworks on which normative and regulative systems are constructed (Jee, 2010). Nevertheless, organizational cognitive legitimacy may collapse if subconscious acceptance is substituted by explicit considerations; it may also lead to rejection if practices are perceived to be unacceptable (Palazzo & Scherer, 2006). Aldrich and Fiol (1994), highlighted that when an activity is publicly known, there is a tendency of taken for grantedness. It is also an indication of whether the public knows about the latest activities introduced by the organization. High-cognitive legitimacy is conditioned when high dependency towards new products, process and services occur.

Additionally, Suddaby and Greenwood (2005) mentioned that during the early stages of cognitive legitimacy, a particular organization is at the adoption process; the process to understand and accommodate the existing culture. As Zimmerman and Zeitz (2002) pointed out, there are two elements held by the organization, roles (what is expected from them) and identities (who they are). These two aspects must be

synchronized to what their environment is expected of them. In a wider perspective, cognitive legitimacy is like a game where the actor or an organization needs to demonstrate the right roles and identities to be accepted in its operation.

Implications for Policy and Practices

This study has significant implications to the development of policy and guidelines for decision-making or policy makers to develop effective corporate strategies in dealing with the complexity of society. To be relevant in the eyes of the NGOs and to legitimize the corporation's existence, PCG, board of directors, managers and shareholders of GLCs must consistently implement corporate responsibility activities. Indirectly, these findings provide some guidelines and indications for practitioners especially the policy or decision makers in GLCs to strategize their corporate responsibility activities. These findings present a clearer picture for practitioners on what factors can legitimatize the existence of GLCs in the eyes of NGOs. There are two major parties implicated directly or indirectly, namely; NGOs, and GLCs (PCG, board of directors, managers and shareholders of GLCs) that will benefits from this study.

Implications to NGOs

The roles of NGOs are significantly important as the representative of a wider society. The findings of this study can be used as a guideline for NGOs to react as the medium for local communities to voice their interest. This study had significantly provided useful information for NGOs to evaluate and assess what have been done by GLCs to help the society in creating relevant corporate responsibility activities that can benefit them. This is considered as unique due to the feedback from the NGOs – which among the stakeholders that is "independent", "representing the society", "powerful", and "have rights" to evaluate the GLCs corporate responsibility activities. NGOs have strong connections with many parties because they represented various interests groups from different components in a larger society. The interests and demands are important to be voiced out by the NGOs. With greater responsibility played by them, their roles are vital as a check and balance whether GLCs are responsible in helping the community through their corporate responsibility activities. The demands from the community indicate that these corporate responsibility activities are becoming highly significant to shape the attitude and behaviours in creating a sustainable development.

Implication to GLCs

This study is significant for PCG to monitor the GLCs' corporate responsibility activities and performance. The findings can help the committee in strengthening the policies that are already been implemented especially those that are related to corporate responsibility initiatives. The findings of this study had revealed that NGOs have higher perception on corporate legitimacy of GLCs. Through these findings, Putrajaya Committee on GLCs, board of directors, managers and shareholder of GLCs need to re-evaluate their current practices and strategies to develop effective corporate responsibility activities for continuous improvement. This requires involvement from all important parties to ensure that GLCs are still relevant and legitimate in the eyes of their stakeholders. This study suggests for PCG, board of directors, managers and shareholders of GLCs designing and formulating effective corporate responsibility activities that have a significant impact on their stakeholders.

CONCLUSION

To conclude, this study found that there is a high perception of corporate legitimacy of GLCs among the selected NGOs. It can be interpreted that Malaysian GLCs have higher corporate legitimacy in the eyes of NGOs. Corporate legitimacy is highly significant to attract more investors to invest. High level of corporate legitimacy can increase the level of trust among investors as well as stakeholders. This will give flexibility and opportunity for the corporate body to initiate activities or programmes that can benefit both, the corporations and their stakeholders. This indicated that GLCs with high level of corporate legitimacy are corporate bodies that are trusted, reliable and responsible entities. In additions, corporate legitimacy has become a major challenge for GLCs that are also known as the top performers or G20. Most of the directives of GLCs are led by Putrajaya Committee on GLC High-Performance chaired by Prime Minister and Khazanah National. Balancing the government's requirements and demands by the stakeholders are the most critical tasks to be performed. However, being legitimate corporations will increase the scrutiny in developing local legitimacy through sustainable community development and environment engagements. This finding had also become an evidence that there is a high interdependency among socially responsible corporations towards their society.

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