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# Company Social Responsibility and Financial Outcomes: A Malaysian Case Study

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**Abstract:** Accounting studies have focused heavily on CSR, or corporate social responsibility. There has been a dearth of research on the nature of CSR activities in connection to business financial performance, even though there has been a plethora of research on CSR activities in Malaysia. That is why this study looks at how public listed firms in Malaysia do financially in regard to their CSR initiatives. The secondary data used in this research came from an examination of the content of publicly available corporate annual reports from 2009 to 2013. This research evaluated the top 100 firms in Malaysia whose names and shares were listed on the Malaysian stock market (Bursa Malaysia) using a purposive sample approach. Two dependent variables, Earnings Per Share (EPS) and Return on Equity (ROE), and four independent factors, environment, community, workplace, and marketplace, were selected for this research based on literature. The association between CSR activities and corporate financial performance was examined using SPSS, especially Pearson's correlation, to analyse and interpret the data. Environmental, community, marketplace, and workplace CSR activities were shown to have a generally good link with financial performance (ROA and ROE) in this research. It follows that the top 100 firms in Malaysia who take part in the four CSR initiatives see an improvement in their bottom line. Sufficiently good financial management may be accomplished by implementing suitable CSR practices, which in turn contribute to substantial economic growth. By implementing this suitable suggestion for boosting excellent CSR practice, companies' performance will be enhanced.

**Key words:** Corporate social responsibility, financial performance, Malaysian listed companies, appropriate, assessment

## I. INTRODUCTION

Since its establishment in the early 1930s, Corporate Social Responsibility (CSR) has become an integral aspect of corporate strategy for development, sustenance, and survival. It is viewed as a significant tool for explaining corporate relationships and business management in pursuit of corporate goals. Corporate social responsibility (CSR) is a way to build a solid foundation for stakeholder relationships and strategic management. In developing nations, CSR is often seen as a potential engine of progress. According to Matten and Moon (2008), international operating corporations (IOCs) were expected to implement CSR practices that would lead to the long-term improvement of education, values, equality, and economic success as well as the complete eradication of modern-day problems like hunger, poverty, and sickness. Listed and non-listed companies alike are now obligated by law in many developed nations to disclose the extent to which they are vulnerable to ESG risks and the steps they take to mitigate them.

Since 2006, when the Prime Minister of Malaysia ordered that all Public Listed Companies (PLCs) must disclose their CSR initiatives, CSR has garnered significant attention in Malaysia. The listing criteria of Bursa Malaysia supports the need. Ever then, corporate social responsibility (CSR) has been a legal requirement in Malaysia, and the Bursa Malaysia (BM) has laid forth guidelines for how listed firms in the country should approach CSR. Organisations are required to report their corporate social responsibility (CSR) initiatives under the framework, which focusses on four key areas: the environment, the workplace, the community, and the marketplace. Several studies have focused on CSR, including those by Alram et al. (2009), Nejati and Amran (2009), and Muwazir and Hadi (2013). Although there have been many research on corporate social responsibility (CSR) in Malaysia, the most of them have focused on topics such as how effective CSR disclosure is, how people perceive CSR, how to create a CSR reporting structure, and how Malaysian CSR compares to CSR in other countries.

Research on the present state of CSR operations and the connection between CSR and financial performance of firms has not been carried out so far. In light of that, the purpose of this research is to look at the 100 largest firms in Malaysia and how their CSR initiatives have affected their bottom lines.

## II. Literature review

Corporate social responsibility, or CSR, is defined as: Conflicting perspectives on the proper place of businesses in society have led to a number of competing definitions of corporate social responsibility (CSR) (Clarkson, 1995; Lantos, 2002).

Corporate social responsibility (CSR) necessitates feedback from a wide range of stakeholders, claims Dusuki (2005). Different groups of individuals have come up with their own definitions of CSR based on their own perceptions; as a result, there is no universally accepted definition (Shahin and Zairi, 200°).

Corporate social responsibility (CSR) is commonly viewed as the process through which companies transparently and accountablely incorporate social, environmental, and economic concerns into their values, culture, decision-making, strategy, and operations. This approach helps to improve society while also enhancing the firm's internal practices (Jamali, 2006). This puts businesses in a good position to deal with potential threats and seize opportunities, particularly in the areas of corporate reputation and stakeholder involvement. Corporate social responsibility (CSR) is a management concept that involves incorporating social and environmental concerns into a company's daily operations and relationships with stakeholders (Dahlsrud, 2008). It's also about the performance going beyond just reading words on a paper to making a real difference in society via tangible deeds. Companies' plans to alter their business practices in order to improve, maintain, or lessen their negative effects on society and the environment are also known as corporate social responsibility (CSR) (Banerjee, 2008). The term refers to a series of steps taken by a firm to alter its business practices in a way that lessens, maintains, or improves the negative effects on people and the planet (Porter and Kramer, 2006). Transparent, accountable, and, by extension, trustworthy corporate behaviour includes performance reporting.

Companies practise corporate social responsibility (CSR) when they satisfy the needs of their stakeholders and shareholders while also taking into account the needs of the environment and society (the "triple bottom-line approach"). Another way to put it is as a set of measures to lessen the impact of externalised costs or to forestall disputes over distribution.

What matters most is how businesses handle their operations so that they have a good social impact, one that takes into account cultural diversity and seeks out chances to improve the abilities of both workers and the community at large. It is a company's way of giving back to the community.

There are a lot of factors and components used as metrics for corporate social responsibility (CSR) all around the globe. In our analysis, we utilised the four cornerstones of corporate social responsibility: the environment, the community, the workplace, and the marketplace.

Among publicly traded firms in Malaysia, these four factors are the most important for evaluating their CSR initiatives.When people talk about the environment, they usually mean how the planet is doing or how healthy the people who live there are (Evans and Kantrowitz, 2002). Environmental initiatives are pursued by corporations as a means to achieve strong CSR objectives and stimulate the economy. When it comes to improving operational efficiency, rethinking product designs, and seeking out new and inventive technologies, some of the major firms that accomplished CSR with environmental activities really motivate the competitive landscape of the marketplace. Corporate social responsibility (CSR) programs with an emphasis on the environment have the potential to influence many tiers of an organization's structure, including environmental disclosure, environmental policy, impact, and performance (Clarkson, 1995). Corporate social responsibility (CSR) policies place a focus on management's internal initiatives to integrate company-wide policies and agendas that guide the organisation towards environmental objectives.

Companies, according to Kaplan and Norton, have a hard time improving their environmental performance, and this is likely due to their focus on satisfying legal requirements, meeting consumer demand, and gaining a competitive edge. Reducing pollution, biodiversity, waste management, noise, and energy usage are some of the most repetitious aspects of environmental management. Additionally, they said that modern businesses prioritise strategies that lessen the environmental damage caused by pollution and waste. Environmental initiatives also demonstrated the firm's commitment to stewarding the planet's finite natural resources. This encompasses a wide range of activities, such as the use of renewable energy sources, the reduction of harmful chemicals, effluents, and waste, the regulation of energy consumption, the control of emissions of greenhouse gases and other pollutants, and the preservation of biodiversity. Furthermore, plantation work, oil and gas extraction, biodiversity preservation, and management of energy efficiency were all emphasised by Kantabutra and Avery (2013) as part of environmental sustainability practices.

Here, "community" refers to the physical location of a company's operations; as such, members of the local community are considered important stakeholders in the success of the enterprise (Porter and Kramer, 2006). Donations or sponsorships made by businesses to better their local communities often go towards economic development initiatives, such as those aimed at enhancing local infrastructure, social welfare, healthcare, education, and security (Rotolo and Wilson, 2006).

Direct or indirect community involvement is possible; nevertheless, local agency-implemented community care and finance schemes pertain to the intersection of business and society that a project, product, or investment might affect, whether locally or globally. Because of the reciprocal nature of their influences and the ways in which the community relies on them, corporations would do well to cultivate an Labour relations, health and safety, professional and personal conflicts, harassment, and discrimination are all examples of workplace activities that both employers and workers encounter on the job (Fox and Stallworth, 2009). By facilitating open dialogue across functional areas, well-designed workplaces, according to Stallworth and Dan Kleiner (1996), boost networking and information transmission across organisational boundaries. A sustainable workplace safeguards the well-being of workers and their families in addition to creating an atmosphere that inspires and supports workers to give their all to the company's success and positively affects everyone involved. If workers are a company's most valuable resource, then it stands to reason that investing extensively in them will provide the best results.

Corporate social responsibility and CFP (Corporate Financial Performance): Numerous empirical research have investigated the connection between CSR and CFP. There is no universal agreement on the facts on CSR and CFP, according to early research by Griffin and Mahon, who compiled the results of several papers. Vogel (2005) and Allouche and Laroche (2005) conducted meta-analyses in the UK and found that CSR positively affects CFP.

Also, from 1991 to 1996, an average of 524 annual reports from major US firms were used by McWilliams et al. (2006). We used a regression model to assess CFP (the dependent variable), and we used industry, research and development spending, and social performance (the independent factors) to estimate CSR. Researchers concluded that, with a well described regression model, there is no correlation between corporate social responsibility (CSR) and financial performance of firms since the CSR variable became statistically insignificant after included R&D factors in the model.

Lamsa et al. (2008) polled 207 Finnish business students on their thoughts on CSR and the relative merits of the interdependent connection with the communities in which they operate.

In the marketplace, efforts should primarily centre on meeting customer service goals and improving supplier and service provider management. Voluntary supplier score cards have been put in place by certain businesses to get vendors to provide their metrics for reducing water, energy, greenhouse gas emissions, and grasses, particularly in developing nations (Kantabutra and Avery, 2013). Consequently, businesses are anticipated to create environmentally friendly goods, include stakeholders, conduct ethical procurement, oversee their supply chains, cultivate suppliers and social branding, and prioritise corporate governance. Furthermore, it demonstrates how corporations and enterprises incorporate ethical business practices into their daily operations (Faisal, 2010). As consumers seek for brands whose values align with their own and businesses whose actions they can respect, they are growing more demanding as the gap between price and quality widens.
stakeholder model versus the shareholder model. Results showed that stakeholders place a higher priority on the company's model than shareholders do. Customers in Indonesia are ill-informed and unsupportive of corporate social responsibility initiatives, according to research by Arli and Lasmono (2010).

The majority of customers in developing nations were willing to support goods and services offered by socially responsible companies, therefore this finding runs counter to their expectations. It also demonstrates that regulatory agencies in developing nations need to raise awareness and implement the notion of CSR more strictly. In a similar vein, Duarte (2010) investigated the level of reflection among five CSR managers working for Brazilian corporations with regard to the influence of their personal beliefs on their job.Managers' individual qualities are crucial to the development and upkeep of CSR principles, as shown by the results. Thirty GLCs traded on the Malaysian Stock Exchange between 2000 and 2004 had their CSR disclosure methods evaluated by Rahman et al. (2011) using words as a metric.

Based on the correlation coefficient and return on assets (ROA), which were used to quantify CFP, it can be determined that environmental actions have a positive link with business financial success.
While shareholder theory holds that environmental activities have no effect on firm financial performance, stakeholder theory argues that in order for a business to succeed, it must create value for its customers, suppliers, employees, community, and financiers. The results of environmental activities, on the other hand, contradict this view. In addition, the results corroborate those of Kantabutra and Avery (2013), who also discovered a favourable correlation between environmentally responsible practices and the bottom line for businesses. It proves that environmental efforts actually affect a company's bottom line, lending credence to the

stakeholders' theory's prediction of a positive Correlation between two.

**Community activities vs. CFP:** For community activities positive correlation was found in 2009, 2010 and 2011 for EPS where r = 0.243*, 0.211 * and 0.1 4 while the correlation is weak in 201 2 and 2013 for EPS where r = 0.010 and 0.034, n = 100 with p = 0.015 and 0.035<0.05 in 2009 and 2010 and 0.084, 0.924 and 0.°3°>0.05 in 2011, 2012 and 2013 with high levels of community activities associated with high levels of EPS. For ROE, there is positive correlation between the two variables in 2009, 2010.

Where r = 0.202* and 0.140 and weak correlation in 2011 and 2013 where r = 0.096 and 0.053, respectively, there is weak negative correlation in 2012 where r = -0.01 0 n = 100 with p = 0.044, TO.05 in 2009 and 0.164, 0.342, 0.923 and 0.602 p>0.05 for the year 2010, 2011, 2012 and 2013, respectively. Therefore, it can be concluded that companies that participate in community activities can gain higher income in return.

The finding is similar to Retool and Wilson (2006) and Porter and Kramer (2006) who stated that business that want to be sustainable should actively engage in community activities so as to develop mutual understanding and enhance sustainability growth. Similar to the study by Roseland, it can be concluded that to respond to growing community activities can impose considerable costs on companies this is due to the competitive environment in relation to customers, resources and labor market which is changing in ways that favor those companies with good community relationships.

Table 1: Correlation matrix between CSR activities and firm financial performance from 2009-2013

| 2009 | | 2010 | | 2011 | | 2012 | | 2013 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Variables | r-values | Siq n level | r-values | Sie n level | r-values | Sie n level | r-values | Siqn level | r-values | Siqn level |
| EVT/ EPS | 0.101 | 0.316 | 0.230* | 0.021 | 0.122 | 0.268 | 0.067 | 0.507 | 0.093 | 0.355 |
| COM/ EPS | 0.243* | 0.025 | 0.211* | 0.035 | 0.174 | 0.084 | 0.010 | 0.942 | 0.034 | 0.737 |
| MPL/ EPS | 0.072 | 0.476 | 0.126 | 0.212 | 0.110 | 0.277 | 0.196 | 0.051 | 0.187 | 0.063 |
| WPL/ EPS | 0.290** | 0.03 | 0.364** | 0.000 | 0.214* | 0.032 | 0.177 | 0.079 | 0.155 | 0.123 |
| EVT/ ROE | 0.165 | 0.102 | 0.090 | 0.372 | 0.071 | 0.483 | 0.063 | 0.535 | 0.039 | 0.700 |
| COM/ ROE | 0.202* | 0.044 | 0.140 | 0.164 | 0.096 | 0.342 | 0.010 | 0.923 | 0.053 | 0.602 |
| MPL/ ROE | 0.025 | 0.806 | 0.045 | 0.660 | 0.012 | 0.906 | 0.063 | 0.533 | 0.002 | 0.986 |
| WPL/ ROE | 0.12 | 0.087 | 0.211* | 0.035 | 0.039 | 0.699 | 0.104 | 0.303 | -0.113 | 0.262 |

**Marketplace activities vs. CFP:** Correlation matrix of marketplace activities and CFP also found to be positive in 2010, 2011, 2012 and 2013 for EPS where r = 0.126, 0.110, 0.196 and 0.18°, respectively. The correlation is weak in 2009 for EPS where r = 0.0° 2, n = 100 with p = 0.051<0.05 in 201 2 and 0.4°6, 0.212, 0.2° and 0.068 p>0.05 in 2009, 2010, 2011 and 2013 with high levels of marketplace activities associated with high levels of EPS. For ROE, there is weak negative correlation between the two variables in 2009, 2010, 2012 and 2013 where r = -0.025, -0.045, -0.063 and -0.002, there is weak positive correlation in 2011 where r = 0.012 with p = 0.806, 0.660, 0.906, 0.533 and 0.986 for the year 2009, 2010, 2011, 2012 and 2013. It is concluded that effective practice of marketplace activities do enhance firm financial performance.

Allouche and Laroche (2005) discovered a similar correlation between a company's financial success and its ability to appropriately align its supply chain strategy with its product diversity strategy, lending credence to our findings. Businesses that have a well-thought-out supply chain structure and a wide range of products tend to do better than those that don't. In order to achieve economic development and guarantee the long-term viability of businesses in Malaysia, the country's CSR framework includes a marketplace activity as one of its four pillars. In addition, as pointed out by Kim et al. (2003), the marketplace may boost a company's bottom line by improving brand loyalty, perceived quality, and brand image when building explicit brand equity with consumers.

**Workplace activities vs. CFP:** Finally, for workplace activities, there is positive correlation between the two variables in 2009, 2010, 2011, 2012 and 2013 for EPS where r = 0.290**, 0.364**, 0.214*, 0.1° and 0.155, n = 100 with p 0.003, 0.000 and 0.032, p<0.05 in 2009, 2010 and 2011 and p = 0.°9 and 0.123. The p>0.05 in 201 2 and 2013 with high levels of workplace activities associated with high levels of EPS. For ROE, there is positive correlation between the two variables in 2009, 2010 and 2012 where r = 0.1°2, 0.211* and 0.104 the correlation is weak in 2011 where r = 0.039 and having large negative correlation in 2013 where r = -0.113 with p = 0.035 p<0.05 in 2010 and 0.08°, 0.699, 0.303 and 0.262 p>0.05 in 2009, 2011, 2012 and 2013, respectively. Therefore, it is concluded that companies that partake into workplace activities can gain higher earnings and return.

Workplace happiness reduces job discontent and employee absenteeism, has been associated with job satisfaction and leads to improved productivity, according to research by Roelofsen (2002) and Baloch (2009), which are comparable to the findings on workplace activities in Malaysia. Therefore, the more content an employee is with his or her work, the more productive and profitable the business will be in the long run. Since human capital, portfolio value, and operational expenditures are all closely tied to the proper execution of workplace activities, it is reasonable to assume that these factors contribute to the financial success of a firm. The goal of corporate social responsibility (CSR) in Malaysia is to address the needs of all relevant parties.

## CONCLUSION

Companies' financial performance and CSR practices work hand in hand to improve the company's image and bottom line by increasing openness and responsibility to stakeholders and shareholders alike via well-designed corporate reporting practices. Adherence to CSR best practices would result in excellent firm performance, according to a large body of prior research on the topic of corporate social responsibility and its impact on financial outcomes. Nevertheless, it is important to approach the study's conclusions with caution as they are based only on the top 100 corporations in Malaysia. This research has added to the body of practical knowledge by recommending and validating the rules and regulations that public listed companies in Malaysia should follow to ensure strong corporate social responsibility practices.

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