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The impact of CSR on the financial performance in manufacturing and service listed firms in Malaysia.

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ABSTRACT

Social responsibility has gained an increasing attention over the past decades and has started to be a main topic in this new era, which means that it is significant for businesses to increase their focus on responsible socially. The demand for corporate social responsibilities has been raising in the society by the public around the world. However, the percentage of companies that are initiating corporate social responsibilities in Malaysia is significantly low. The aim of this paper is to study the impacts of corporate social responsibility on public listed companies from the service and manufacturing industries in Malaysia. In this research, a quantitative method is adopted to analyze the secondary data collected through SPSS statistical software. This research obtained the data over the period of 2016 to 2020 of 31 service companies and 31 public manufacturing companies that are listed in Bursa Malaysia. The results of this research show that there is an impact of corporate social responsibility towards return-on-equity (ROE) and earnings per share (EPS). This means that ROE and EPS have a relationship with CSR significantly. On the other hand, the results show that there is no impact of corporate social responsibility towards return-on-asset (ROA) and net profit margin (NPM). The findings indicates that ROA and NPM have no significant relationship with CSR.

Keywords: Corporate social responsibility, financial performance

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1.0 Introduction

Corporate social responsibility (CSR) is explained as a management approach where the companies are taking the social and environment concerns of the community into the account of their business operations as well as to provide a better interaction with stakeholders (Schooley 2020). To present, there is no agreement on what constitutes CSR. CSR is a symbolism that encompasses a firm's responsibility towards the aspects of environmental, stakeholders-friendly, as well as the wider community. It may be used as a philosophy, area of research study, business practice, as well as an ideology (Blowfield 2005; Fordham & Robinson 2018). In the early 2000s, corporate social responsibility (CSR) was regarded as a crucial connection between the development of company's approach and sustainable (Steurer et al. 2005). This featured businesses that used CSR to conform with applicable international and industry norms. The importance of CSR has been increasing to a wide range of corporate stakeholders (Giannarakis et al. 2016). Since business operations have a significant effect on society, such as on development routes and the results at the community level in the surrounding area of a development, CSR is therefore important to many different institutions and groups (Bendell 2010).

2.0 Literature Review

In relation to the outcomes performed by corporate social responsibility in corporate business can be explained through the theory of corporate social performance (CSP) model. This CSP model links the connections among corporate practices, principles, and results with the corporations, communities, institutions, as well as the societies and environment, in the aspects of its direct actions towards such stakeholders and in aspects of the unexpected consequences of its business activities. A process-oriented method is adopted by Wood (1991) to describe the CSP in a way that it encompasses both results and additional factors like corporate social responsibility and corporate social responsiveness. Tran (2015) conducted a study on CSP and corporate financial performance in relation to the theories and empirical evidences extracted from the latest worldwide financial recession. When looking at financial performance from an international viewpoint, the author explores the principles and processes of CSP has an impact on it.

By definition, stakeholders are known as any identified party or individual who may influence the success of a company or who can be impacted by the goals or corporate decisions of a company, according to Freeman (2010). In the viewpoint of stakeholder theory by Freeman, businesses are holding accountability to a diverse group of stakeholders like shareholders, employees, suppliers, customers, and government. As a mean to satisfy and ingrate the interests of the corporate stakeholders, it is therefore like a moral duty for the management to achieve a suitable balance between stakeholder interests while guiding the corporate operations (Buchholz & Rosenthal 2005). Researchers such as Famiyeh, Kwarteng and Dadzie (2016) claims that when a firm induces CSR practices, it produces a reputation that is favourable in the minds of the stakeholders. Hence, promoting greater shareholder's satisfaction and leading to a good impact on the financial performance. Consequently, the better financial performance can be achieved by the firm (Wu et al. 2020). Taking into consideration of stakeholder theory, Nassivera et al. (2017) asserted that customers have higher wills in paying for goods that are associated with CSR practices despite the higher prices.

As mentioned by Campbell, Craven and Shrives (2003), theory of legitimacy is one of the most broadly used theory in the context of CSR disclosures. Legitimacy theory is well defined as the view or presumption that the activities committed by an organization are desirable, unsuitable, or in line with a set of norms, values, concepts, and meanings thar have been evolved in social environment. According to the legitimacy theory of business, a corporation would voluntarily report on its actions in relation to CSR if managers believed that such actions were anticipated by the communities in which it does business (Deegan 2002; Guthrie 2006). According to the research studied by Guthrie (2006), in term of legitimacy theory, has concluded that companies with higher position in the market is likely to reveal more CSR information and to execute more CSR disclosure strategies. A paper conducted by Mahmud (2019) to explore the legitimacy theory and its relationship to CSR disclosures through a literature review-based analysis discovered that the vast majority of firms engage in purely symbolic management of corporate legitimacy and tend to produce fake CSR reports. In contrast, the research also found that there are other firms that are working on CSR initiatives sincerely. Consequently, according to Mahmud (2019), solely depending on theory of legitimacy is not suggested.

3.0 Methodology

Secondary date collected from Bloomberg Terminal were compared for this research. Selection of 31 manufacturing companies and 31 service companies that are listed on Bursa Malaysia and each companies' ROA, ROE, NPM, and EPS were taken as sample and were being used for analysis. The total of 62 companies selected were provided with CSR Disclosure Score. Data Collected were from the period of year 2016 to 2020. The data extracted as CSR Disclosure Score was computed as independent variables, whereas the 5-year ROA, 5-year ROE, 5-year NPM, and 5-year EPS were computed as dependent variables.

4.0 Analysis

Table 1: Descriptive Statistics

	N	Min.	Max.	Mean	Std. Deviation
CSR Disclosure Score	310	.00	64.05	33.2911	12.75582
Return On Asset	310	-12.47	42.74	5.8609	8.10097
Return On Equity	310	-29.34	314.39	18.5049	39.11253
Net Profit Margin	310	-50.70	56.38	12.5886	14.57838
Earnings Per Share	310	-.49	3.10	.3328	.49834
Valid N (listwise)	310				

Table 1 shows that all the data was relatively distributed close to the mean value.

Table 2: Correlations

		CSR Disclosure Score	Return On Asset	Return On Equity	Net Profit Margin	Earnings Per Share
CSR Disclosure Score	Pearson Correlation	1	.042	.191**	.029	.277**
	Sig. (2-tailed)		.458	.001	.614	.000
	N	310	310	310	310	310
Return On Asset	Pearson Correlation	.042	1	.725**	.340**	.401**
	Sig. (2-tailed)	.458		.000	.000	.000
	N	310	310	310	310	310

Return On Equity	Pearson Correlation	.191**	.725**	1	.216**	.273**
	Sig. (2-tailed)	.001	.000		.000	.000
	N	310	310	310	310	310
Net Profit Margin	Pearson Correlation	.029	.340**	.216**	1	.320**
	Sig. (2-tailed)	.614	.000	.000		.000
	N	310	310	310	310	310
Earnings Per Share	Pearson Correlation	.277**	.401**	.273**	.320**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	310	310	310	310	310

Independent Variable: CSR Disclosure Score

Table 3: Correlation Coefficient Interpretation

Dependent Variables	Pearson Correlation Value	Coefficient Interpretation
Return On Asset	0.042	Negligible Correlated
Return On Equity	0.191	Weakly Positive Correlated
Net Profit Margin	0.029	Negligible Correlated
Earnings per Share	0.277	Weakly Positive Correlated

Table 2 is the Pearson correlation coefficient. The data and interpretation is summarized into Table 3. As we can see, the relationship of CSR Disclosure Score with ROA and NPM are negligible correlated, whereas the relationship of CSR Disclosure Score with ROE and EPS are weakly positive correlated.

Table 4: ROA ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	36.242	1	36.242	.551	.458[b]
	Residual	20242.113	308	65.721		
	Total	20278.356	309			

a. Dependent Variable: ROA

b. Predictors: (Constant), CSR Disclosure Score

As shown in Table 4, the p-value exceeds the 0.001 significant level ($p > 0.001$) and implies that the relationship of CSR Disclosure Score and ROA are not correlated statically.

Table 5: ROA Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	4.967	1.289		3.854	.000
	CSR Disclosure Score	.027	.036	.042	.743	.458

a. Dependent Variable: ROA

From Table 5, the regression equation presented is *ROA = 4.967 + 0.027 (CSR Disclosure Score)*. This tells that 1 standard deviation amendment in CSR Disclosure Score will affect the standard change of the ROA by 0.027.

Table 6: ROE ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17167.928	1	17167.928	11.608	.001[b]
	Residual	455537.220	308	1479.017		
	Total	472705.148	309			

a. Dependent Variable: ROE

b. Predictors: (Constant), CSR Disclosure Score

As shown in Table 6, the p-value is equal to the 0.001 significant level (p = 0.001) and implies that the relationship of CSR Disclosure Score and ROE are correlated statically.

Table 7: ROE Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-.949	6.113		-.155	.877
	CSR Disclosure Score	.584	.172	.191	3.407	.001

a. Dependent Variable: ROE

From Table 7, the regression equation presented is *ROE = -0.949 + 0.584 (CSR Disclosure Score)*. This tells that 1 standard deviation amendment in CSR Disclosure Score will affect the standard change of the ROE by 0.584.

Table 8: NPM ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	54.358	1	54.358	.255	.614[b]
	Residual	65617.161	308	213.043		
	Total	65671.520	309			

a. Dependent Variable: NPM

b. Predictors: (Constant), CSR Disclosure Score

As shown in Table 8, the p-value exceeds the 0.001 significant level (p > 0.001) and implies that the relationship of CSR Disclosure Score and ROA are not correlated statically.

Table 9: NPM Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	11.494	2.320		4.954	.000
	CSR Disclosure Score	.033	.065	.029	.505	.614

a. Dependent Variable: NPM

From Table 9, the regression equation presented is *NPM = 11.494 + 0.033 (CSR Disclosure Score)*. This tells that 1 standard deviation amendment in CSR Disclosure Score will affect the standard change of the NPM by 0.033.

Table 10: EPS ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.880	1	5.880	25.560	.000[b]
	Residual	70.858	308	.230		
	Total	76.738	309			

a. Dependent Variable: EPS

b. Predictors: (Constant), CSR Disclosure Score

Table 10 shows the p-value is less than the 0.001 significant level ($p < 0.001$) and implies that the relationship of CSR Disclosure Score and ROA are correlated statically.

Table 11: EPS Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-.027	.076		-.357	.721
	CSR Disclosure Score	.011	.002	.277	5.056	.000

a. Dependent Variable: EPS

According to table 11, the regression equation presented is *EPS = -0.27 + 0.011 (CSR Disclosure Score)*. This tells that 1 standard deviation amendment in CSR Disclosure Score will affect the standard change of the EPS by 0.011.

Table 12: Hypotheses Test Table

Number	**Hypotheses**	**Results**
1	H_1: CSR Disclosure Score does have an impact towards the ROA of public listed companies in the manufacturing industry and service industry on average in Malaysia.	Fail to reject H_0, H_1 is not supported.
2	H_2: CSR Disclosure Score does have an impact towards the ROE of public listed companies in the manufacturing industry and service industry on average in Malaysia.	H_0 is rejected, H_2 is supported.
3	H_3: CSR Disclosure Score does have an impact towards the NPM of public listed companies in the manufacturing industry and service industry on average in Malaysia.	Fail to reject H_0, H_3 is not supported.
4	H_4: CSR Disclosure Score does have an impact towards the EPS of public listed companies in the manufacturing industry and service industry on average in Malaysia.	H_0 is rejected, H_4 is supported.

5.0 Conclusion

After the analysis of the data, the test on all the hypotheses is successful as well as the validity determination. As a conclusion, only Hypothesis 2 and Hypothesis 4 are supported. From the research, the CSR Disclosure Score only has impact on ROE and EPS. In contrast, the CSR Disclosure Score has no impact on ROA and NPM.

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