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CORPORATE SOCIAL RESPONSIBILITY OF SHARIAH
COMPLIANT CONSUMER PRODUCT AND SERVICES
INDUSTRY

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Abstract

This paper attempts to measure the financial performance of the Shariah-compliant companies, specifically on the consumer products and trading & services industry and to investigate the relationship between the Corporate Social Responsibility (CSR) practices and financial performance of the Shariah compliant consumer product and services industry. The idea of this comparative study is established from the prior literature pertaining to the embedded-typed and peripheral-typed CSR which attempt to reflect the nature of the business and CSR practices of the companies. Since this study is quantitative in nature, thus it employs analysis of secondary data through the Shariah-compliant company's annual report. The findings of the study seem to suggest that the association between the tested variable(s) is relatively unable to be supported, as there is no significant relationship between the embedded CSR and peripheral CSR and the financial performance of the sample companies. Ways forward and limitation of the study are further deliberated.

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1. Introduction

The emergence of the corporate social responsibility (CSR) is viewed as a positive response of companies towards fulfilling the interests of wider circles of its constituents. The heightened interests of CSR by managers can be attributed to the presence of reciprocal actions and responsibilities between the two parties. The proponents of CSR also support that the doctrine of CSR becomes a framework of the role of business in society (Dusuki & Abdullah, 2007). Unlike the conventional theory of the firm which clung on the solely profit maximation motive (Friedman, 1970), CSR is a kind of actions that transcend the abiding by legal requirements, which takes account social obligations towards society (McWilliams & Siegel, 2001). The initiatives of company to engage in CSR are seen as succumbing to the demand by stakeholders who are vulnerable to the consequences of the company's decisions and its business activities, which could substantially affect to the viability of its stakeholders. However, there is a misconception of CSR pertaining to the motive(s) of carrying out CSR since most of the CSR activities are carried out far from the company's domain business activities and are spent at the expenses of shareholders.

Tracking down to the seminal studies of CSR, the engagement of CSR is widely-accepted and recognised by the stakeholders since the CSR is seen as a way to alleviate the self-interest of company. Although the companies are subject to adhere to the regulatory requirements on CSR practices, such CSR practices also are perceived as a 'jump on the band wagon' among companies since it could give positive impact to the firm s' performance (Cochran & Wood, 1984; Mustafa et al., 2012; Orlitzky et al., 2003; Sayekti, 2015). In fact, good performance is often being a targeted goal that must be achieved by companies to ensure its future sustainability (Fontaine, 2013). Being Islamic organizations which are governed by Shariah principles, it is expected that the Shariah-compliant companies should strike a balance between social responsibility and economic objectives. Therefore, in the context of consumer product vis~ a~ vis trading and services industries which underpinnings the Shariah-compliant companies, these organizations play significant role in societies in delivering their contribution through its business activities.

In Islam, social responsibility constitutes as a part of Islamic ethical principles which delineates the concept of social equilibrium and justice (Beekun, 1997; Yusoff, 2002). Unlike the conventional CSR dimensions, CSR practices from the lens of Islamic are not only appear in the social and philanthropic forms but also could take account the way it conveys ethical values through business activities. Therefore, CSR practices from an Islamic perspective are perceived as significant obligations of companies and ethical values that are benefitting for the well-being of society in the realm which it operates (Darus et al., 2014). Although the link between CSR practices and performance of preceding studies is tenuous, however it is pertinent in the context of Islamic organisations since it involves the effectiveness and efficiency in managing the resources of companies. Islam emphasizes the rights and obligations that must be earned and delivered by the companies and its stakeholders in order to earn blessings from God and success (Al-Falah) in the worldly life and the Hereafter (Yusoff, 2002). Since the business performance is imperative, hence the companies should treat CSR practices as a part of their strategic planning and tool in business to entice their stakeholders. This is consistent with the use of instrumental theory which emphasizes the function of CSR as a strategic tool to enhance and elevate business performance.

2. Problem Statement

The proponents of the CSR-related prior studies provided anecdotal evidences with an assertion that CSR practices could give positive consequences to the firm's performance as such practices are virtuous ways to convey that companies are aware with the society and environmental affairs. This attempts seem to impart signals that companies are obliged to be socially responsible to its stakeholders since the relationship between firms and society and environment is perceived as a business ecosystem, and it reciprocates and needs each other. Although the well-beings of firm's stakeholders are important, however the interests of its main capital providers (shareholders) must be not completely ignored. Given the financial resources of company are hinged on the shareholders, therefore companies should well-managed its resources in order to produce better financial outcomes. Since the companies have several objectives to be met, this could leave company's top management in a quandary on the right amount of the CSR to be invested. According to McWilliams and Siegel (2001), CSR is perceived as a kind of investment and spending on the CSR investment must be well-strategized in order to provide favourable implications to the firm's bottom-line.

Most of the prior studies on CSR practices which are examining on the CSR dimensions such as communities, employees and environment are not directly associated with firm's business activities or known as 'peripheral-CSR' (Aguinis & Glavas, 2013). This kind of CSR is expected to be practised by companies that involve in mundane trading of products and providing services, which the CSR practices are not conveyed directly through their products. Hence, it is not surprising to know that the association between the CSR and financial performance produced mixed, negative or no relationships, and these results might be due to various factors, including the unrelated business activities of CSR (Bhardwaj et al., 2018; Cochran & Wood, 1984; Orlitzky et al., 2003). The CSR in a broad term is not only confined to this peripheral-typed CSR, but it also expand to the CSR that directly associated with the business activities such as through production of consumer products. For instance, the companies could convey its CSR practices through producing good quality consuming goods which are essential for the well-beings of consumers and as a way to deliver their appreciation to the stakeholders (Bhardwaj et al., 2018). This kind of CSR is known as 'embedded-typed CSR' in which the good practices of CSR is imbued through company's business activities (Aguinis & Glavas, 2013), as this kind of CSR practices could be found in the consumer product industry, given that the companies of this sector could channel their ethical values that could benefitted consumers and other stakeholders in order to make rational decisions in buying the company's products. Therefore, this study aims to fill this scantiness of the abovementioned breadth of CSR-performance in order to examine the appropriate level of CSR investments to be spent by companies which are matters for the firm's financial performance.

3. Research Questions

1. How much CSR-related costs have been spent by embedded-oriented consumer product industry and peripheral-oriented trading and services industry?
2. To what extent the embedded-oriented and peripheral oriented CSR companies affect the firm's performance?

3. Is there any significant difference in the firm’s performance between the embedded-oriented and peripheral-oriented CSR companies?

4. Purpose of the Study

1. To identify the CSR-related costs of the embedded-oriented CSR and peripheral-oriented CSR.
2. To examine the relationship between the embedded-oriented and peripheral-oriented CSR companies with firm’s performance.
3. To investigate whether there are significant differences in the firm’s performance between the embedded-oriented and peripheral-oriented CSR companies.

5. Research Methods

5.1. Data Collection

The current study comprised of the sample of 60 listed companies from the respective two sectors of industry; consumer product and trading and services. The company’s annual reports were downloaded from Bursa Malaysia as well as company website. The annual report of each company is examined as annual reports are the source of broad-spectrum company information (Rowbottom & Lymer, 2010). As annual reports serve as an effective platform for communication by the company to the stakeholders, companies often disclose financial as well as non-financial information, such as CSR activities which have reported in the annual report. Therefore, any information regarding the company’s CSR activities can be found in the annual reports.

A cross- sectional method which is involved one year of period in year 2017 is carried out in the current study. Hand- collected method of data collection is performed as it is an appropriate research technique that only involves in collecting or picking the related numerical figure(s) from the annual report. As far as the independent variables are concerned, the variables of the embedded-typed CSR involving the consumer product industry are evaluated based on the amounts of CSR costs spent by companies via the total production costs. Additionally, peripheral-typed CSR is computed by any CSR-related expenditures that are spent by company, in which this information can be retrieved from the CSR disclosures made in the annual report of the trading and services industry.

Meanwhile, the dependent variable of this current study was firm’s financial performance such as sales, return on sales, return on assets and return on equity. Table 1 below explains the details of the operationalization of variables.

5.2. Measurement of variables

Table 01. Operationalization of variables

Variables	Operationalization of variables
Embedded CSR	Costs incurred for embedded CSR are directly attributable to the production cost.
Peripheral CSR	Measured using CSR expenses disclosed in annual report
Sales	Total sales for the year 2017

Return on sales	Measured by operating profit divide by net sales
Return on asset	Measured by net profit divide by total assets
Return on equity	Measured by net income divided by stockholder's equity

6. Findings

6.1. Descriptive Analysis

Table 02. Descriptive statistics

	Minimum	Maximum	Mean
CSR expenditure	14,586	15,789,000,000	350,852,089
Costs of goods solds	45,453	13,191,100,000	324,632,183
Sales	5,050,000	47,416,900,000	2,027,468,500
Return on Sales	-161.19	28.26	1.744
Return on Asset	-29.91	43.2	3.832
Return on Equity	-40.53	87.36	6.43

Table 2 above depicts the descriptive statistics of both sectors of industry (consumer product and trading & services). On average, both CSR expenditure and costs of good solds are spent at almost similar amount although the former prevails the latter in order to portray that companies have spent substantially the amount of CSR expenditure as a way to legitimise its existence and business operations to the stakeholders.

6.2. Inferential Analysis

6.2.1. Correlation Analysis

Table 03. Correlation Statistics

	Sales	Return on Sales	Return on Asset	Return on Equity
CSR expenditure	.624 (.065)	.984 (.003)	.916 (.014)	.928 (-.012)
COGS	.009 (.583)	.078 (-.256)	.101 (.365)	.392 (-.145)

Table 03 shows the correlation statistic of the variables used in this study. Results shows that Return on Sales has positive correlation with CSR expenditure.

6.2.2. Kruskal-Wallis Test

Table 04. Kruskal-Wallis Statistic

	Sales	Return on Sales	Return on Asset	Return on Equity
Chi-Square	7.891	.367	1.041	.142
Symp. Sig.	.005**	.544	.308	.706

Based on the Table 4 above, it portrays that there are none significant differences between the two studied sectors of industry, except for the sales variable. This finding attempts to convey that the practices of CSR either peripherally invested or embedded through production activities do not significantly different in contributing towards the firm's financial performance with the exception of the sales. Although peripheral-type CSR could be expected to enhance the stakeholders' perception towards the company, however this assertion is too generic and level of sensitivity of the stakeholders might be different (Bhardwaj et al., 2018). For those companies of consumer product industry, although the CSR is conveyed through the production activities from the aspect of the quality and pricing of products, however it may depends on the interests of stakeholders towards products that could give impact to their well-beings.

7. Conclusion

Given the abundant of previous studies have been carried out to examine CSR-performance, most of the existing studies have focused on the CSR practices which peripherally undertaken far from company's nature of business as a way to legitimise its business to the stakeholders. The stakeholders may appreciate with this kind of social responsibility that has been exuded by company to weigh on their well-beings, in turn this could elevate the firm's performance which resulted from the built perceptions among the stakeholders. Hence, this study attempts to examine from a different angle of CSR which directly attributed to the business operations/activities, which takes consideration of the way companies spent its resources for business activities such as production costs. Besides, unlike the mundane measurement of CSR-related studies such as CSR disclosure, given the assertion of McWilliams and Siegel (2001) on the appropriate level of CSR amount to be spent, hence this study manages to investigate the given matter. However, similar to the prior studies that were failed to proven the significant relationship between CSR-performance, the findings of this study looms over without exception. These reasons could be attributed to the various factors from the aspect of variable(s) and measurement, and relying mainly on the production costs without taken into consideration of the quality element would not suffice. As a way forward, it is recommended that other elements of quality or production-related improvements shall be taken into account in the future study to measure its impact towards business performance. In a similar vein, the measured CSR shall be not taken from the whole CSR dimensions, but may focus specifically on a single CSR-dimension and to investigate how the studied dimension could contribute to the firm's bottom-line.

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