IEBMC 2017
8th International Economics and Business Management Conference

BIDERECTIONAL RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILTY (CSR) & FINANCIAL PERFORMANCE

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Abstract

This study aims to investigate the bidirectional relationship between Corporate Social Responsibility and Financial Performance among 100 top listed companies in Bursa Malaysia. We use GRI and ESG to measure the financial performance while TOBINS'q and ESG to determine their level of CSR. For GRI there is 55 indicators to be measure by scale of 1 and 0 which 1 indicates the company comply with the indicator and 0 is non-comply. Similarly goes to our next 33 ESG indicators to be examined on. Our independent and dependent variables in this study complexly contains both financial performance and corporate social responsibility since we study on bidirectional relationship. We use secondary data which is annual report to examine our indicators on GRI and ESG. The latest annual report can be obtained in Bursa Malaysia website which since we only use the annual report for 2015. The result indicates that there is positive relationship between financial performances to corporate social responsibility while the other one relationship found to be partly significant. Relationship between CSR financial performances is only significant on EPS but partially significant to Tobins'q.

Keywords: Corporate social responsibility, financial performance.

1. Introduction

Corporate social responsibility can be defined as "a concept whereby companies integrate social and environment concerns in their business operation" (European Commission, 2001, p.6). Company focus are on increasing the social issues, and in other ways to maximize economic performance in order to satisfy shareholder while act in socially responsible manner to gain benefit for society as a whole. The company concerned on these three element, social, environmental, economic , that forced them to integrate system that are mainly focus on the observance of law in all spheres, and also concern on the common good for society particular on general and stake holders. General assembly states that shareholder's role is to request all ethical attitudes and behaviour at the corporate level which indirectly lead to influence the board of director in formulating strategies. The important element that they demand from manager such as transparency, efficiency, and efficacy is to achieve economic benefit that will lead to maintain the company's sustainability over long term period, while demanding the social responsible policies integrated in the company themselves (Pava & Krausz, 1996). Corporate social responsibility also can be considered as socially and environmentally friendly actions that are not only limited to requirement of law, but it is outside level of compliance, which privately provide good to the public. Nevertheless, social responsibility means that they go beyond legal requirement which firm willing to accept additional cost of more ethical behaviour such as voluntary committing and providing fun to charity.

In the field of accounting, CSR is under the subject of social accounting. Measurement and communication of information concerning the effect of business and its activity towards society and environment are the key features of social accounting (Belkaoui, 2000). The framework has been provided to identify, measure and report firm's social and environmental impacts to their stakeholders. Under social accounting, social reporting is one of the branches that act as communication medium such as annual reports, social reports, promotional material and we sites to disclose their CSR activities. The users such as employees, consumer, community and government are the important viewers of the reports for financial analysts and fund managers. Corporate Social Responsibility (CSR) has become an important issue in many industries linearly increase with the responsibility of various stakeholders, customers, investors, government, and the community in general (Solomon, 2011).However the previous research using meta-analyses which they make a conclusion where there is positive relationship between CSR and firm performance but there is no unanimity until now. Social responsibilities have ambiguous and complex impact on firm performance which there is no true causality that has not been prove yet

2. Problem Statement

According to Grigoris and George (2014) survey, CSR disclosures in annual report were only affected by the company's size which emphasized only on US large sized incorporating companies. Apart from that, the survey is limited on one-year period corporate data and did not include a longer period (Grigoris & George, 2014). In Grigoris and George (2014) research it only focuses on the large sized companies in US did and did not consider other small firms. So, the result will not be generalized. Initially Grigoris and George (2014) study intent to use 500 leading companies as their sample, however due to missing data they only able to do research on 100 companies. The method to measure CSR indices used in Sukanya, Rebekah, and Yudhvir (2015) study is based on the survey. Hence, it would affect the fairness of

the result because the researcher opinion might be biased according certain circumstances. Other than that, the sample used by Sukanya et al. (2015) is not sufficient because it involve only small size of sample which is below 30 companies. This study also cannot find the strong relationship between CSR and financial performance. Firms that involve in the Li (2012) research as the sample engaged with CSR activities by stages which make the researcher difficult to measure such activities. The research by Rodriguez-Fernandez (2015) took a sample that is limited in geographical and scope in temporary. Lujie, Andreas, and Ou (2015) use very limited research because it only chooses the firms that are global and comply with GRI. Most of the previous research did not examine the relationship between subjects but only focus on each subject. Most of the survey on effect of CSR and Corporate Financial Performance (CFP) conducted before found out that there is no real unanimity reached concerning relationship between CSR and CFP. Therefore, a study is conducted to test the vice versa relationship of social responsibility and financial performance, using CSR index. Besides, the combination of previous studies in international market has not meet real unanimity relationship between CSR and financial performance (Sukanya et al., 2015). Therefore, we would conduct a research on bidirectional of CSR and financial performance relationship.

3. Research Questions

The main issues to be investigated by this study are questioned in the following research questions:

- Is Corporate Social Responsibility having impact on financial performance?
- Is financial Performance contributed to Corporate Social Responsibility?

4. Purpose of the Study

This research conducted to contribute literature review in explaining and understanding the effect of Corporate Social Responsibility towards firm's performance among 100 listed companies in Bursa Malaysia. We believe that Corporate Social Responsibility is positively affect firm's performance and the Company who are already excellent in their performance tend to have a good record on CSR. On that point we tend to focus more on 100 listed companies as the respondent. The list of hundreds company will be tested on this study to ensure the reliability and relevancy of the result. Moreover by completing this research, it will encourage all of the firms to give more attention n in enhancing their Corporate Social Responsibility activities that will lead to a better firm performance and vice versa. As a result in increasing the CSR, better firm performance can be achieved. The CSR element usually involved in the big company that will concern more on their performance which they need to satisfy a large no of stakeholders involve in the company. The practitioner such as management and employees in organization should corporate with each other to implement all elements in CSR to maintain the firm performance in an excellent stage. This also needs to consider in order satisfying users with a good firm performance contribute to them. Other than that the policy makers such as Malaysia Institute of Corporate Governance (MICG) which a body that concern on raising awareness and practice of good corporate governance in Malaysia, need to concern on enhancing the Corporate Social Responsibility in all companies in Malaysia in order to lead them for a better performance. The uniqueness of our study is using a bidirectional relationship where we can directly analyse two relationships at the same time. Our study will give a positive view for a firm to implement CSR activities which will affect their financial performance and at the same time to retain their performance for

a good contribution to CSR. So this study also can review whether big companies are interested and aware in performing CSR.

5.   Research Methods

This chapter will focus on any types of methodology that will be used to conduct the research and collect as much as possible information or data. It will include the explanation of four main sections which are population and sample, data collection, measurement variables, and statistical analysis.

5.1.   Population and Sample.

Population can be defined as an item or group that have common characteristic in which the data from them can be obtained and evaluate for any specific purpose. In the point of view for research process, population can be determined as a whole group of people, event and item that the researchers are investigating in their study. This project paper is using population of all public listed companies in main market Bursa Malaysia with annual report of 1 year period. Bursa Malaysia consists of 811 listed companies at the year of 2016. Due to limited company comply with CSR index which are Global Reporting Initiatives (GRI) and Environmental, Social and Governance (ESG), the study preferred to get more specific approach by using sampling technique. There will be selected numbers of elements from the whole population that will be used as a sample. In our research we will select 100 company that have highest market capital, revenue and profit among the whole numbers listed in Bursa Malaysia as our sample except financial industry such as bank.

5.2.   Sampling technique.

In this study, the sampling technique that is going to be used is non-probability and probability sampling. Non-probability sampling is a sample that represents any specific researcher judgment and probability sampling is general sampling which every element has the chance to be chosen. Based on purposive sampling, we choose 100 top listed company in Bursa Malaysia as our sample. However there is only 86 company excluding financial and banking institution listed. Then we decided to take another 14 companies randomly using systematic sampling. Each 20th element in Bursa Malaysia listed companies are chosen. The purpose why we choose 100 top listed company in Bursa as our sample because big company is known to disclose more on their community and environment activities.

5.3.   Data collection.

The data for this study were gathered using secondary source of data for obtaining relevant information with the study. Secondary data consists of an information which is collected from sources that already existing. The data can be an internal or external to the organization and it also can be accessed via the internet or perusal of the information recorded or published. In this study, we are using annual report in order to collect the information. The purpose of using annual report is because we need to analyse CSR and financial elements that were disclosed in company's annual report. Before we collect the information, we need to determine which companies in Bursa Malaysia comply with GRI Index from GRI website: http://database.globalreporting.org Rodriguez-Fernandez (2015) and ESG Index from website Bursa

Malaysia. After we determine which companies was complied with CSR Index, we will use annual report of 2015 for each companies was selected to collect information to measure CSR Index and financial performance. We decided to choose the latest annual report to increase accuracy of our findings that will reflect current issues.

5.4. Statistical analysis.

Descriptive statistics describe as the main features of collected the huge amount of data into numeral value. In the descriptive statistics, there are two purposes that have been stated. First purpose is to describe the sample or population by explore the data that had been collected and the second one is to check the accuracy of data, summarize and describe the observation. Each variable will calculate the descriptive statistics in Univariate level. For the CSR, there are four type of variable which is Global Reporting Initiative (GRI), and Environment, Social and Governance (ESG). The variable for firm performance also consists of two types which are Tobin's Q and Earning per Share (EPS). This variable will be used to compute the value of mean. For normality test, we can use parametric test if the data is normally distributed while if the data is not normally distributed, non-parametric test will be used. If the significance value of data greater than 0.05, it means that the data is normally distributed. However, the data will be not normally distributed if the significance value is below than 0.05. The bivariate analysis, it will involve two variables at a time.

In bivariate analysis, it has two group of technique which is test of significance and test of relationship it also known as correlation analysis. In this study, correlation analysis will be used to test the hypothesis stated from this study. It also used to measure the strength of the relationship between two variables. Then, through correlation analysis we will measured the degree of correlations and direction between all the independent variables with dependent variables by using Pearson's correlation or using Spearman Rank Order correlation. The Pearson's correlation test is used to measure the degree to which there is a linear association between two variables and it will measured in either interval or ratio scale while for Spearman Rank Order correlation is a non-parametric measure of the strength and direction of association that exists between two variables. In our study, we are using Spearman Rank Order correlation in determining the relationship between dependent and independent variable because the data in the normality test showing that the result is not normally distributed.

6. Findings

Chapter 6 represent the result of our study on corporate social responsibility (CSR) and financial performance by using 100 Top companies listed in Bursa Malaysia as our sample. There are three sections included in our study which all of this are based on our research objective and hypothesis that have been listed in earlier to recognize the result of our research findings from Chapter 2. Our sections are divided to descriptive statistic, normality test and correlation coefficient analysis.

6.1. Descriptive analysis.

For EPS, we can take a look on minimum value of its value which is -0.93 while the maximum value would be 3.18. According to the our analysis, the company that has highest EPS value is British American

Tobacco Bhd while the company lowest EPS value is Perwaja Bhd. EPS is calculated by net income divided by total outstanding share of every company. Based on table above, Tobin's Q minimum value would be 0.30 while its maximum value is 13.81.

Table 01. Descriptive analysis

	Minimum	Maximum	Mean	Std. Deviation	Variance
EPS	-.93	3.18	.3037	.55354	.306
TOBINS_Q	.30	13.81	1.9185	2.08914	4.365
GRI	2	55	17.68	12.629	159.493
ESG	3	33	12.38	5.314	28.238
Valid N (listwise)					

The company that obtained highest Tobin's Q level is British American Tobacco Bhd followed by Digi Bhd with a value 9.89 as the second highest of Tobin's Q. Formulas that have been used to calculate Tobin's Q is the total market value divided by the total asset value of the firm. Tobin's Q represents the fair value of the stock market. The GRI index that represent CSR indicator has the minimum value of two (2) that shows the minimum total of indicators complied by company. According to the frequency in Table 01, there is only one (1) company that comply with the minimum value. In the side view for maximum value, compliance of GRI has the value of 55 which is comply with all indicators showed in GRI index. According to table above, that presents descriptive statistics for 100 companies that have 33 indicators in ESG index. The mean value obtained based on this test is 12.38 where it shows that from 33 indicators in ESG index most companies was listed there were only 12.38 indicators complied in average.

6.2. Normality test result.

Table 02 represent normality result of our relationship between Corporate Social Responsibility and Final Performance. Normality test is being used to make sure that an error are normally calculated in all the samples and data used. Based on table above, the p value for EPS and Tobin's Q index shows less than 0.05 which indicate that all data are not normally distributed.

Table 02. Result of normality test

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	df	Sig.
EPS	.250	100	.000	.688	100	.000
TOBINS_Q	.271	100	.000	.567	100	.000
GRI	.174	100	.000	.871	100	.000
ESG	.123	100	.001	.959	100	.004

6.3. Correlation coefficient test result.

Table 03 present the correlations coefficient of relationship between Corporate Social Responsibility to Financial Performance. Our study use Spearmen correlation which the measurement will recognize and explain the relationship between dependent and independent variable. Above table include the result of coefficient correlation between our dependent variable which is GRI and ESG towards independent variables listed.

Table 03. Spearman's rho correlations

		GRI	**ESG**	**EPS**	**TOBINS_Q**
GRI	Correlation Coefficient	1.000	.599**	.209*	.283
	Sig. (2-tailed)	.	.000	.037	.004
ESG	Correlation Coefficient	.599**	1.000	.227*	.307**
	Sig. (2-tailed)	.000	.	.023	.002
EPS	Correlation Coefficient	.209*	.227*	1.000	.405*
	Sig. (2-tailed)	.037	.023	.	.000
TOBINS_Q	Correlation Coefficient	.283**	.307**	.405**	1.000**
	Sig. (2-tailed)	.004	.002	.000	.

The table also include Significant 2-tailed value, which also known as p value where N is reflect the number of companies in the sample. Based on this study, the Corporate Social Responsibility consists of two variables which are GRI and ESG. Table above indicates that the correlation coefficient between GRI and EPS is 0.036 while between Tobin's Q is 0.04. The p-value of both variable are significant because the result is lower than 0.05 which is low than 5%. The result indicates that there is positive relationship between GRI and EPS. However there is no significant relationship between GRI and Tobin's Q. For the correlation test of ESG index, the result shown the relationship between ESG index and another two indicators for financial performance which is EPS and TOBINS'Q are significant. The EPS significant value is 0.023 with the correlation coefficient is 0.227. While for Tobin's Q indicator the significant value is 0.002 with the correlation coefficient of 0.307. Both financial performances for EPS and Tobin's Q indicator show positive relationship for correlation coefficient. Hence, the hypotheses of contribution by CSR to the financial performance can be partially agreed. This can be supported by the study by Wang, Chen, Yu and Hsiao (2015) which stated that compliance of CSR has good influence to the firm performance. Dessy and Rosita (2015) also stated that, company that disclose their CSR receive better response from the public than the company that do not disclose CSR in financial statement. Furthermore, by disclose CSR in financial statement, company can gain trust from public and increase the sales level of the company.

Besides that, this study also supported by Karagiorgos (2014) which company that adopts CSR strategies may increase the stock returns of the company and gain satisfaction from their stakeholders. Conversely, Lujie et al. (2015) said that transparency of CSR is not really affected effectively to good financial performance. We also use Spearman in determining significant correlation between financial performance and CSR. It is because the data in the normality test showing that it is not normally distributed. The table 03 shows that there is significant and positive relationship between EPS to GRI and ESG. The significant value for GRI and ESG are 0.036 and 0.023 respectively while correlation coefficient value is 0.210 and 0.227 showing positive relationship. Table above shows the result of Tobin's Q that has positive significant relationship for both GRI and ESG where the values are 0.004 and 0.002 respectively. In the matter of correlation coefficient, GRI has value of 0.283 and 0.307 for ESG. According to the Rodriguez-Fernandez (2015), the companies that apply the policy of CSR will contribute to higher profit while the company that have higher profit will have well social corporate responsibility. It state that the bidirectional between CSR and financial performance has positive relation in both ways. Besides, this finding is

consistent with the study by Li (2012), the companies with good financial performance also good in managing their CSR activities.

7. Conclusion

According to our finding analysis, the hypothesis for H1, high quality of CSR leads to good financial performance is partially accepted while for the H2, good financial performance leads to high quality of CSR is accepted. For the CSR towards financial performance in the view of GRI, our finding found that only EPS shows significant relationship while for the Tobin's Q, there is no significant influence by the GRI have been found. In the view of ESG, both EPS and Tobin's Q are significantly influence by the ESG. Meanwhile, the significant relationship of ESG towards Tobin's Q shows that it is stronger rather than EPS. Therefore, our hypothesis (H1) is partially accepted. Our hypothesis (H2) of financial performance towards CSR is positively accepted. Both indicators of financial performance which are EPS and Tobin's Q show that the significant relationship with both CSR index which are GRI and ESG are positive. Our result show that, the relationship between Tobin's Q and both CSR index are stronger compared to the relationship between EPS and both CSR index. Table 5 show the summarizing of the overall conclusion about the hypotheses. In the first place as taking benefit to our study, we suggest that companies in Malaysia should use GRI and ESG indicators as the guideline for them to report on CSR and practice on CSR activities. Both indexes widely cover the element of social, environment and governance thoroughly. Hence, organisation in Malaysia may consider each indicator to be practiced and implemented all indicators by period.

Proven in this study that CSR do have relationship with the financial performance of company where we hope our finding will motivates all organisations in Malaysia are more aware and considerate in practicing corporate social activities and principle. As a matter of fact corporate social responsibility undoubtedly also can cherish harmony and serenity in community. Correspondingly with the well financial performed companies, it is encouraged that they should invest more social and environment activities as they have larger funds. Not to mention the fact that they also can get benefit from it which they can gain a good reputation, sound public perception, customer loyalty and attract shareholder interest. Recently, the public as well as investors has more interest in social practice. Therefore, awareness should be raised to all organisations in Malaysia to pay more concern on social and environment responsibility. We would expect in future that investors have more interest in companies that actively involved in community activities. We believe the contribution from the finding of this research can help and motivate companies in Malaysia to be more mindful of corporate social responsibility. From the positive side of this study, socially responsible investment can lead to the ethical and respectful behaviour in community and among stakeholder of the company itself.

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