THE RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE AND CORPORATE FINANCIAL PERFORMANCE: EVIDENCE FROM MALAYSIA

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Abstract

This study, using data analysis, attempts to address the question of whether CSR is linked to financial performance in Malaysia. Despite CSR disclosure being at a nascent stage in Malaysia, the findings of this study solidly support the outcome of the majority of results in developed markets. It was found to be positively related to financial performance. This suggests that local firms can achieve advanced levels of financial performance if they engage in social activities. The findings also confirm that there is limited evidence of a significant effect of CSR on financial performance in a long-term relationship.

Keywords: corporate social responsibility (CSR), corporate financial performance (CFP), Fixed Effects (FE) model, Random Effects (RE) model, Bursa Malaysia.

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1.0 Introduction

Numerous studies have been conducted to measure the statistical association between perceived corporate social responsibility (CSR) and corporate financial performance (CFP), to aid the understanding of the relationship between CSR and CFP. Pava and Krausz (1996) identified and reviewed 21 empirical studies in this area, while Margolis and Walsh (2003) reported that 122 published studies empirically examined the relationship between CSR and CFP during the period 1971 – 2001. Furthermore, Orlitzky *et al.*, (2003) conducted a meta-analysis of 52 studies, which revealed that most results of prior studies found that CSR had a positive impact on financial performance.

According to Mustaruddin Saleh, Norhayah Zulkifli dan Rusnah Muhamad(2009), CSR studies have been conducted frequently in the local Malaysian context. Previous studies concluded that the awareness level of managers towards CSR is high, but it is not followed by reporting. Even though the number of CSR studies is high, there is to date, no empirical study of the impact of CSR on financial performance in a Malaysian context. In contrast these issues have been extensively explored in developed markets. The results of these more widely known studies show that the positive impact of CSR on financial performance may encourage managers to pursue social performance as part of their strategy for attaining high financial performance.

The trend in developed markets such as North America and Europe show there have been widespread empirical tests of the relationship between CSR and CFP. There are, however, no published studies, in the Malaysian context, that have explored the impact of CSR on the financial performance of local companies engaging in CSR. The lack of information from academic literature concerning whether CSR has any substantiated impact on financial performance in local companies may be one of the possible reasons why company's disclose little of their CSR activities (Mustaruddin Saleh, Norhayah Zulkifli dan Rusnah Muhamad,2009). Gelb and Strawser (2001), state that firms have incentives to engage in stakeholder management by undertaking socially responsible activities and that providing extensive and informative disclosures is one such practice. Therefore this study endeavors' to fill the gaps in the empirical study of the impact of CSR on financial performance.

This study reports the relationship between CSR and financial performance in Malaysia. This study also helps create comparative findings in emerging capital markets. There are two major objectives of this study – first, to explore whether there is evidence of any impact between CSR and financial performance for companies listed in Bursa Malaysia; and second, to explore whether any impact exists between dimensions of CSR and financial performance for companies listed in Bursa Malaysia.

2.0 Literature Review

Corporate Social Responsibility (CSR), which is also known as corporate citizenship or sustainable responsible business (SRB), is a form of corporate self regulation integrated into the business culture. CSR is defined as:

> "CSR is a concept whereby financial institutions not only consider their profitability and growth, but also the interests of society and the environment by taking responsibility for the impact of their activities on stakeholders, employees, shareholders, customers, suppliers, and civil society represented by NGOs. Banks must take on new responsibilities that go beyond a simple policy of "paternalism" vis-a-vis their suppliers, customers and employees, such as that practiced up until recent times" (Mohammad Azim, Ezaz Ahmed and Brian D" Netto, 2011).

There are many theoretical reasons (such as political economy, legitimacy and stakeholder theories) why companies should engage in social responsibility reporting. Some companies do not engage in corporate social disclosure because they: (i) do not have the information, (ii) do not want to disclose this information since it signals bad performance, and (iii) it is an expensive process. Previous studies have used either legitimacy theory or stakeholder theory to develop themes of disclosure measurement and to analyze the extent to which companies disclose their corporate social responsibility. Legitimacy is defined as:

> "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definition" (Suchman, 1995, p. 573).

Legitimacy theory has been used by several researchers as their framework to examine corporate social disclosure practices. Deegan (2002) suggests that organizations need to take community expectations into account if they want to be successful. Organizations will be penalized if they do not operate in a manner consistent with community expectations.

According to Mohammad Azim, Ezaz Ahmed and Brian D" Netto (2011), stakeholders are the central focus of stakeholder theory. Stakeholders include a wide range of people and interest groups who are involved in some capacity with organizations. The contemporary stakeholder literature can be traced back to the seminal work of Freeman (1984). He drew attention to the role of external stakeholders which were defined as "any group who can affect, or is affected by, the accomplishment of organizational purpose" (p. 25). This theory has been used to support the reasoning of such disclosures. From an analytical perspective, a stakeholder approach can assist managers by promoting an analysis of how the company fits into its larger environment or social context, how its standard operating procedures affect stakeholders in the company (employees, managers, stockholders) and immediately beyond the company (customers, suppliers, financiers). These themes are illustrated in Figure 1.

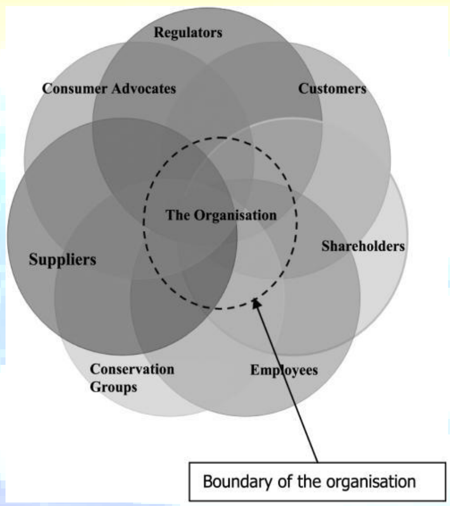

Figure 1: Stakeholders of an organization.

Freeman (1984) suggests that each firm should have a "generic stakeholder map" with specific stakeholders. General categories such as owners, the finance community, activist groups, suppliers, governments, political groups, customers, unions, employees, trade associations, and competitors would augment more specific stakeholders. In turn, the rational manager would not make major corporate disclosure decisions for his or her organization without considering the impact on each of these specific stakeholders. As the organization changes over time, and as decisions change, the specific stakeholder map will vary. Stakeholder theory has become important for companies that want to secure their relationship with stakeholders through corporate social disclosure.

According to Mohammad Azim, Ezaz Ahmed and Brian D" Netto (2011), in a comparative study on 150 companies in the US, UK and Australia, found that 85% of US, 98% of UK, and 56% of Australian companies made some social disclosures in their annual reports. This study indicated that more than 40% of these companies reported human resource issues, 31% reported community involvement, 13% reported environmental activities, and 7% reported energy and product related issues. It also revealed the average number of pages that organizations in these countries allotted in their reports for social disclosures. Companies in the US used 1.26 pages while 0.89 and 0.70 pages were used in the UK and Australia respectively.

CSR Research in Malaysia

CSR appears to be at a nascent stage in Malaysia with some Malaysian firms recognized as being pro-active in this field. These include firms which have voluntarily adopted the Global Reporting Initiatives (GRI) reporting framework (e.g. BAT Malaysia Berhad and Shell Refining Co). Furthermore, the attitudes of Malaysian managers and executives towards social responsibility suggest that most of them agreed that their companies were involved in socially responsible activities (Mustaruddin Saleh, Norhayah Zulkifli and Rusnah Muhamad,2009). Hence, a proactive approach to CSR may help a firm to get access to pools of capital it might not otherwise be able to tap into. Likewise, being well-known for adopting socially responsible policies may also help a firm capture export business supplying firms at the top end of the global supply chain where CSR is taken seriously. The degree of CSR among business communities has been increased in recent years. However, CSR study is still in its infancy period. Prior studies in this area have taken two broad approaches. While some studies examined the extent of CSR, others have examined the identify driver or other factors.

The studies on CSR development in Malaysia by Abdul Hamid (2004);Nik Ahmad and Abdul Rahim(2003) stated that the level of awareness appears to be growing. They also stated that in an exploratory study found that Malaysian firms engage in CSR because of the influence of the government. The dependency on a foreign business partner is also seen as one of the contributory factors for CSR in Malaysia. However, this does not appear to translate into higher levels of social reporting (Nik Ahmad and Abdul Rahim (2003). Consequently, further study is needed to determine what other factors cause this ‘gap’. There are a few possible reasons as to why CSR in Malaysia is still in its infancy stage. As highlighted by Ahmad and Abdul Rahim (2003), the major reasons posited for non disclosure include the lack of a recognized reporting framework, the cost of reporting, and dread of how investors will react. Also few firms may seriously become involved in CSR to reduce pressure from stakeholders. Furthermore, Abdul Hamid (2004) stated that the lack of legislation on CSR and the firms’ perception that the investors or community will not benefit much from such reports may also contribute to non disclosure.

In conclusion prior CSR studies of the local context merely explored the content of CSR activities in annual reports and the motivation of why managers engaged in it. Even though there is some pressure from stakeholders towards companies that more actively engage in CSR activities, the number of companies involved in CSR disclosures is still low. Prior studies found that CSR activities are only as in common reporting and tend to be self-laudatory (Nik Ahmad and Abdul Rahim (2003). There is a gap in the studies concerning any impact of companies disclosing CSR activities towards their financial performance. This issue is important because managers need to know whether their firms will have an economic advantage and receive a positive response from their long-term investors. Nik Ahmad and Abdul Rahim (2003), state that a possible avenue of research is to examine if CSR disclosure is related to a firm's financial performance. This study therefore addresses the gap in the existing literature of the relationship between CSR and financial performance. In short, it is hoped that this study will stimulate more studies in this direction.

The Relationship between CSR and CFP

The empirical study of CSR and CFP started over three decades ago in western countries. There are basically two types of empirical study of the relationship between CSR and financial performance. One set uses the event study methodology to gauges the *short-run* financial impact (abnormal returns) when firms engage in socially responsible or irresponsible acts (Hannon and Milkovich, 1996; McWilliams and Siegel, 2000). The results of these studies have been mixed. For example, Wright and Ferris (1997) found a negative relationship; Posnikoff (1997) reported a positive relationship; and McWilliams and Siegel (2001) found no relationship between CSR and financial performance. Other studies are similarly inconsistent concerning the relationship between CSR and short-run financial returns (McWilliams and Siegel, 2001).

The second set of studies examines the nature of the relationship between some measure of corporate social performance, CSP (a measure of CSR), and measures the *long term* firm performance, using accounting or financial measures of profitability (McWilliams and Siegel 2001). The results from these studies have also been mixed. They found no relationship between CSR and profitability and found that prior performance was more closely related to CSR than subsequent performance with a significant positive relationship.

According to Griffin and Mahon (1997) pioneering empiricists who explored the corporate social and financial performance link were often interested in a single dimension of social performance, such as environmental pollution. Further, Griffin and Mahon (1997) summarized the findings of the numerous articles they reviewed and concluded that no definitive consensus exists on the empirical corporate social and financial performance link, and that while a substantial number of studies found a negative relationship some of the studies have been inconclusive because they found both positive and negative relationships. However, most of the investigations found a positive link.

McWilliams and Siegel (2001) tested the relationship between CSR and CFP with a regression model that used a dummy variable indicating the inclusion of a firm in the Domini 400 Social Index (DSI 400) as the measure of social performance. The DSI 400 is a portfolio of socially responsible companies. They used an average of annual values for the period 1991-1996 for 524 large U.S corporations in a regression model that included a measure of financial performance as the dependent variable. Social performance, industry, and expenditure for research and development were independent variables. Their findings suggested that inclusion of the research and development variables in the model caused the CSR variable to be insignificant, leading them to the conclusion that there may not be a CSR-CFP link if the regression model is properly specified.

The latest study of corporate social and financial performance was done by Mahoney and Roberts (2007). They performed empirical analyses on a large-sample of publicly held Canadian companies. Based on tests utilizing four years of panel data they found no significant relationship between a composite measure of companies' social and financial performance. However, they found significant relationships between individual measures of companies' social performance regarding environmental and international activities and financial performance.

All of the studies above were done in the U.S and U.K market settings, the empirical study of CSR and financial performance outside of these markets is very rare, but a study on emerging markets was conducted by Subroto (2002). He used an explanatory survey and multivariate correlations, using cross-sectioned data and critical part analyses, to analyze a correlation study on CSR and financial performance towards ethical business practices in Indonesia. Three hypotheses were tested. Testing results of the first hypothesis, all interests of stakeholders had a significant correlation. Results of the second hypothesis were still positive. Lastly, the third hypothesis indicated that the correlation between social responsibility and financial performance was quite low. This is the first research of its kind in Indonesia and may also be the first in an emerging market. This study will try to contribute in this area and may facilitate more intensive research on CSR and financial performance links outside of the U.S and European markets in the future, especially in emerging capital markets.

The CSR in Malaysian Property Industry

Bolton Berhad

Bolton's corporate social responsibility programmer theme for the year, *"Dream It, BuildIt, Live it",* essentially means BOLTON is turning great ideas into reality - an apt description forThe Wharf development as it will incorporate several innovative ideas and concepts includingmany environmentally-friendly elements. Bolton's Founded with a vision to provide an environment for the betterment of young disabled children, for their difficulties to be recognized and for them to be given equal status in the society, PPKKCTM currently runs a home for 138 children of all races, ranging from 7 months to 55 years from all over Peninsular Malaysia. About 100 of these children are disabled with various disabilities such as Down's syndrome, autism, hyper activity, physical challenges, intellectual disabilities as well as speech, audio and visual impairments. The rest are normal children who come from broken, abused or single-parent backgrounds. Currently, about 70 children are residing in four houses at Taman Megah while the rest reside at a rented house in SS3, Petaling Jaya. Although PPKKCTM is doing yeoman service, the decentralized system of housing its residents in different buildings is not in the best interest of the residents which has caused in other difficulties for the administration. Through the assistance from kind-hearted souls, PPKKCTM has purchased a piece of land with the intention to build a one-stop centre. PPKKCTM is now eagerly waiting toobtain approvals from the relevant authorities and to raise another RM4.2 million to construct the buildingfor the unfortunate. The involvement of Bolton's in CSR increase continues years.

SP Setia Berhad

SP Setia's corporate responsibility charter took form in 2007 after many years of social work carried out through charity trust – the S P Setia Foundation. Over the last 10 years, the Foundation has raised RM40.79 million that has been utilized to aid the underprivileged and deserving. Realizing that corporate social responsibility encompasses more than just philanthropy; their CSR charter was created to better express goals and aspirations. The Foundation's key focus is education with approximately RM17.5 million spent on the Setia Adoption Programme (SAP). In 2000, the programme had only 79 primary school children but today, the Foundation provides assistance to 2,400 primary and secondary school students from 119 schools in Kuala Lumpur, Selangor, Johor, Penang, Kedah, Perlis and Pahang. Apart from the SAP, the Foundation also spent RM2.4 million between 2000 and 2010, on the purchase of new desks and chairs, furniture and fittings, books, multimedia system and special education training equipment for the schools, while RM1.34 million was spent on tertiary education scholarships. The Foundation also undertakes general welfare activities including relief work during epidemics, natural disasters and other emergencies, medical assistance for the disabled, poverty-stricken and critically ill, as well as community enrichment and the promotion of national unity. Can founded that being well-known for adopting socially responsible policies of SP Setia's may also help a firm capture expert business supplying firms at the top end of the global supply chain where CSR is taken seriously. The degree of CSR among business communities has been increased in recent years.

Talam Corporation Berhad

Talam's involvementinCSRto helpthe communityis very low. Thereis notany informationconcerningthosehelp society. They onlyinvolved inCSRto helpmembercompanies. As a responsible corporate citizen, the Group will continuously ensure that all pertinent activities relating tocorporate social responsibility are considered and supported in its operations for the well being of stakeholders,community and environment.Our employees are the heart of the Group and the key to the competitive success in the marketplace. As apolicy, we do not discriminate against any race, gender, age and minorities. The employees are also providedadequate medical benefits as well as hospitalization and personal accident insurance coverage. We believethat employees' involvement is vital to the success of the Group.As part of effort towards the preservation of environment, the Group would ensure there are sufficient measuresat all construction sites to prevent any adverse impact on the environment.This Statement is made in accordance with the resolution approved by the Board of Directors on 29 June2010. The degrees of CSR among communities are zero every year.

3.0 Methodology

Data and Sample Size

The initial sample in this study consists of the 200 largest companies, which are taken out of 499 companies listed on the main board of Bursa Malaysia during the period 2000 to 2005. The selection is based on their highest market capitalization ranking. This selection criterion is consistent with previous studies on CSR reporting. A higher proportion of large and medium-sized companies disclosed social information compared to small companies. Companies wishing to increase business have larger responsibilities and principles (Thompson and Zakaria, 2004).

Data for these companies was collected for the years 2000 – 2005. This time span is selected for two reasons: First, this period is the recovery period from the financial crisis that hit Asian countries and particularly the Malaysian capital market. Second, CSR disclosure is in its infancy period in the emerging capital markets. Data is collected from the companies' annual reports, downloaded through the Bursa Malaysia website, Hydra database, and the Central Bank of Malaysia. Companies' annual reports constitute the main data for this study and were chosen because the annual report is the primary source of corporate environmental reporting, and, in Malaysia, annual reports of listed companies are the most accessible source of information, either in hard copies or electronic formats (Thompson and Zakaria, 2004).

Hypothesis

According to prior studies there are mixed findings. This study adopts the perspective that investments in CSR are associated positively with corporate financial performance. Hypotheses mergers are:

H1: CSR disclosure will be positive, significantly related to corporate financial performance (CFP).

H2: At least one of the CSR dimensions will be positive, significantly related to corporate financial performance (CFP).

4.0 Data Analysis

Descriptive Statistics and Pearson's Correlation Matrix

In this section, descriptive statistics are used to test the bivariate relations by comparing the mean (average) for each variable. The results of descriptive statistics and Pearson's correlation matrix are reported in Table I. Column two and three in Table I report the findings of the descriptive statistics of mean and standard deviation. Leverage (LEV) and earnings per share (EPS) are positively correlated with return on assets (ROA) which is represented as firms' financial performance. All three of these variables are significant in explaining the relationship with formation of financial performance.

When using stock market return (R*i*) as a measure of a firm's financial performance, four variables: corporate social responsibility (CSR), size of company (SIZE), assets turnover (ATR) and EPS, are positive and significant in explaining a firm's financial performance. Lastly, a firm's financial performance is represented by Tobin's *q* found that positive significantly correlated to six control variables, namely CSR, LEV, SIZE, ATR and EPS respectively. It is interesting for BETA as the measures of risk level are consistently negative and significant to estimate the firms' financial performance.

Table I.
Descriptive Statistics and Pearson's Correlation Matrix

	Mean	Std Dev	ROA	Ri	Q	CSR	BETA	LEV	SIZE	SALES	ATR	EPS
ROA	0.0458	0.1662	1.00									
RI	-0.0859	0.2246	0.18**	1.00								
Q	0.8380	0.8797	0.31**	0.13**	1.00							
CSR	1.3608	1.3671	0.06	0.17**	0.07*	1.00						
BETA	0.9768	0.4175	-0.08*	-0.10**	-0.16**	-0.02	1.00					
LEV	0.4320	0.3374	0.13**	-0.04	0.18**	0.10**	0.14**	1.00				
SIZE	13.1463	1.3174	0.07	0.11**	0.32**	0.41**	-0.04	0.23**	1.00			
SALES	12.9129	1.5892	-0.07	0.06	0.02	0.41**	-0.02	0.24**	0.62**	1.00		
ATR	0.5632	0.5581	0.05	0.17**	0.30**	0.11**	-0.19**	0.02	0.03	0.39**	1.00	
EPS	0.2648	0.6107	0.18**	0.22**	0.17**	0.13**	-0.21**	-0.06	0.06	0.04	0.11	1.00

*Notes: **Correlation is significant at the 0.01 level (2-tailed),*
** Correlation is significant at the 0.05 level (2-tailed).*

Referring to the correlation between CSR and the three alternative measures of a firms' financial performance it was found that both Ri and Q variables are positive and the significant difference from zero indicates the higher the level a firm's CSR disclosure, the higher its concurrent and subsequent financial performance. The bivariate correlation matrix of the variables used in this study show that all variables have low correlation coefficients with each other, that is; none of the variables shows serious multicollearity. The correlation coefficients are only indicative of serious collinearity if their coefficients of correlation exceed 0.80.

Estimation Results of Static Effects

This section shows the findings that determine the empirical relationship between CSR and financial performance based on the statistical procedures presented in the previous section through static approach, namely GLS with fixed and random effect models. The estimation is set to follow the White heteroscedasticity consistent estimator that solves the problem of heteroscedasticity.

Estimation results of the impact of CSR on financial performance are presented in Table II. Three dependent variables used to measure financial performance are as follows: Return on Assets (ROA), Stock market return (Ri) and Tobin's *q* ratio (Q). As shown for Model 1 when ROA is the dependent variable utilized to measure financial performance, the Fixed Effects (FE) model is more precise than the Random Effects (RE) model since the Hausman test is significant. These indicate that the hypothesis – there are no fixed effects in existence in any companies, is rejected. This means that in the FE model, the intercept in the regression model is allowed to differ between individuals in recognition of the fact that every company, or cross sectional unit may have specific characteristics of its own. Except the Leverage (LEV) variable, overall variables are strongly significant different from zero (p-value < 0.01) whereas signs of independent variables have mixed findings. Adjusted R^2 shows that financial performance is stylishly explained by the CSR and other explanatory variables in which the overall estimation is good at 66.96 percent.

Table II.
Effect of CSR on Financial Performance using Unbalanced Data

Variable	Model 1 (ROA) FE Model	Model 1 (ROA) RE Model	Model 2 (Ri) FE Model	Model 2 (Ri) RE Model	Model 3 (Q) FE Model	Model 3 (Q) RE Model
C	-0.0167	-0.7799***	-4.0428	-3.3761***	-0.0485	-0.9001***
	(0.0243)	(0.1962)	(0.0842)	(0.4171)	(0.0842)	(0.3466)
CSR	0.0021**	0.0221**	0.0258***	0.0386***	-0.0053**	-0.0040
	(0.0008)	(0.0088)	(0.0060)	(0.0047)	(0.0026)	(0.0050)
BETA	0.0087***	-0.0673	-0.3215***	-0.3084***	-0.0385***	-0.0870**
	(0.0016)	(0.0483)	(0.0329)	(0.0270)	(0.0074)	(0.0380)
LEV	-0.0457	-0.3685*	-0.2749***	-0.2264***	0.8360***	0.8977***
	(0.0022)	(0.1904)	(0.0144)	(0.0509)	(0.0172)	(0.0764)
Log SIZE	0.0191***	0.2057***	0.4265***	0.3492***	0.3778***	0.4260***
	(0.0014	(0.0401)	(0.0167)	(0.0373)	(0.0123)	(0.0319)
Log SALES	-0.0168***	-0.1785***	-0.1109***	-0.0985***	-0.3154***	-0.3376***
	(0.0013)	(0.0395)	(0.0149)	(0.0115)	(0.0148)	(0.0199)
ATR	0.0374***	0.6213***	0.2917***	0.2763***	0.7031***	0.7423***
	(0.0026)	(0.0675)	(0.0478)	(0.0707)	(0.0227)	(0.0946)
EPS	0.0007***	0.0055***	0.0057***	0.0052***	0.0011***	0.0018***
	(6.22E-05)	(0.0013)	(0.0005)	(0.0006)	(0.0001)	(0.0003)
R^2	0.7273	0.3332	0.7124	0.4146	0.8177	0.5439
Adjusted R^2	0.6696	0.3292	0.6516	0.4111	0.7792	0.5412
F-statistic	12.620***	83.793***	11.722***	118.774***	21.236***	200.011***
DW-statistic	2.3375	1.8288	2.4820	2.0825	2.3619	2.1050
Hausman test (χ^2)		19.3586***		168.4172***		19.1506***

Notes: *(i) Figures in parentheses are standard errors robust to heteroscedasticity,*
(ii) DW statistic is Durbin-Watson d test for autocorrelation,
*(iii) * p < 0.10, ** p < 0.05, and *** p < 0.01,*
(iv) Number of observation is 1182.

Model 2, with the stock market return (Ri) as a measure of financial performance, found that the Fixed Effects (FE) model is also more appropriate than the Random Effects (RE) model, since results of the Hausman test is rejected the hypothesis – there are no fixed effects in existence in any companies is rejected. All of the *t*-statistics are significant at 1 percent level. Except SALES, all of the signs explanatory variables are consistent with the theory. Adjusted R^2 shows that financial performance is strongly explained by the CSR disclosure and other explanatory variables in which the overall estimation is good at 65.16 percent. There is no evidence of positive first-order serial correlation. As can be seen in Model 3, when Tobin's *q* ratio (Q) as a measure of financial performance continues to show that the FE model has an advantage over the RE model. This shows that the Hausman test result rejects the null hypothesis that there is no evidence of fixed effects on any companies at 5 percent level significant. Overall *t* statistics are strongly significant related to financial performance (*p*-value < 0.01) and Adjusted R^2 value is 77.92 percent. In conclusion, comparing the two models the FE model is more precise than the RE model, since the result of the Hausman test rejects the hypothesis all μ_{it} are equal to zero.

5.0 Discussion and Conclusion

Based on the findings presented in this study designed the research to answer the question of whether the results present robust and generally acceptable findings on the relationship between CSR and financial performance for Malaysian public companies. The sample size is based on 200 companies, with the highest market capitalizations, listed on the main board of the Bursa Malaysia during the period 2000 to 2005. For determinants of relationships between CSR and financial performance, the outcome of the regression analysis fits the theory relatively well. The results from the evaluation yield the following discussions.

The findings obtained reveal that the situation in Malaysia is in a period of infancy with respect to the disclosure of CSR information. The findings presented in this study suggest that CSR has a contemporaneous impact on financial performance for companies listed in Bursa Malaysia. The financial performance change, in a statistically significant manner, in response to CSR increases and decreases is quite evident. This is widely supported by existing findings from the developed markets. These results support the argument that CSR, as the decoupling strategy for Malaysian companies, makes them follow business associates from overseas who are already applying CSR reporting and are also trying to be good corporate citizens for the purpose of obtaining contracts from the government (Amran and Devi, 2007). Hence, most of them are involved in socially responsible activities.

When ROA and Tobin's *q* are used as dependent variables for Models 1 and 3, and using the fixed effects model, it was found that product dimension was positively significant related to financial performance. The argument supports the view that companies which have solid financial performance have more resources available to invest in product development. In addition, the care activities related to the environmental dimension, that are assumed to have a higher cost as well as community involvement, were found to be negatively significant related to subsequent financial performance for Models 1 and 3. The findings indicate that community involvement activities such as philanthropy, with its pressure on how money is spent rather than made, fails to add sufficient value to the reputation of the firm among stakeholders. As summarized, the fixed effects model is better for the estimation process compared to the random effects model.

Some limitations of the study and suggestions on how to overcome them are elaborated in the following arguments. The first limitation is the inconsistency of results obtained using various financial performances. This problem can be solved by future research paying more attention to the selection of measures for the firms' financial performance used in the study of CSR. Secondly, the sample size in this study, taken from the 200 highest market capitalizations of companies listed in Bursa Malaysia, is also a limitation as it imposes certain limitations on the generalization of the findings. The inclusion of medium-sized firms and industry characteristics in the future might improve the results. Lastly, given that this study has considered the evaluation for only six years these findings should be interpreted with caution. Future research in this area should consider it necessary to extend the number of periods studied to evaluate recent legal requirements as well.

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