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# Corporate Social Responsibility and Firm Performance among Malaysian Firms

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**Abstract:** With the rise in corporate social responsibility (CSR) initiatives and greater awareness of sustainable development, CSR is rapidly evolving and firms' involvement is increasing. However, the enforcement of mandatory disclosure does not necessarily mean firms will respond and go beyond these legislations. Thus, the underlying premise of positive financial outcomes could encourage firms to act beyond legislative compliance. This study first examined the current nature and extent of a firm's CSR disclosure (CSRD), as measured by CSR dimensions workplace, marketplace, community, and environment. CSRD was measured through content analysis, through annual reports of 97 manufacturing firms in Malaysia from 2017 to 2019. A CSR disclosure index was adopted for this study. This study also determined the impact of CSRD on corporate financial performance (CFP) and identified which CSRD dimension had the greatest impact on CFP. Firm size, measured by the level of assets, sales, and market capitalisation, as well as earnings per share were the control variables for this study. Data were analysed using Pearson's correlation and multiple regression analysis. It was found that CSRD levels in manufacturing firms in Malaysia were still low and there was a mixed relationship between CSRD and CFP. The findings suggest that the relationship between CSR and CFP may be curvilinear. It was also found that community, workplace, and marketplace related responsibility activities affected ROA the most, whereas the marketplace affected Tobin's Q the most.

**Keywords:** Corporate social responsibility, environment, social, firm performance, CSR disclosure

## 1. Introduction

Researchers have long studied the social concerns of firms (Frederick, 1960; Bowen, 1953; Berle, 1931), but it is only in recent years that the interest in corporate social responsibility (CSR) becomes more prevalent due to its rapid evolvement over the past few decades. CSR serves to promote corporate accountability and transparency and satisfy customers who seek sustainable products (Beurden & Gossling, 2008; Gauthier, 2005). CSR is increasingly becoming a required criterion for guiding investors' decisions (Bursa, 2006), through Socially Responsible Investing (SRI). Firms are quickly embracing Environmental, Social and Governance (ESG) programmes due to the increasing expectations and demand from investors and stakeholders who are now paying attention to not only the firm's bottom line but also their societal contribution (Callahan, 2021), with the Global Reporting Initiative (GRI) used as a common language. The main concern surrounding these initiatives is sustainability. This is because all activities carried out by firms have impacts on society and the environment, as well as the fact that the United Nations introduced sustainable development goals (SDGs) in 2015. Hence, sustainability reporting is used to manage firms' progress towards sustainability through measurements and disclosures (Atu, 2013). CSR's rising diffusion has attracted the attention of the Malaysian government, as CSR is now a national agenda (Economic Planning Unit, 2017). The Malaysian government has promoted and underlined the vital role of CSR as a contributing element to the country's growth. Starting on 31

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December 2007, CSRD was mandated for all public listed companies in Malaysia. According to Bursa Malaysia (2006), CSR reporting was outlined by four dimensions, namely: workplace, marketplace, community, and environment.

One of the earliest CSR definitions was introduced by Bowen (1953). He defined CSR as ‘the obligation of businesses to pursue those policies, to make those decisions, or to follow those lines of action, which are desirable in terms of the objectives and values of our society’. CSR in this study is based on a narrower definition by Maignan & Ferrell (2000), which is ‘the extent to which businesses meet the economic, legal, ethical, and discretionary responsibilities imposed on them by their stakeholders’. This definition supports Carroll’s (1979) pyramid classification of the four responsibilities of CSR, which are ordered from bottom to top as follows: economic (making a profit), legal (following the law), ethical, and philanthropic (being a good corporate citizen). CSR as an area of study has gained increasing prominence over the past few decades. Montiel (2008) found that the number of specialised journals involving CSR doubled between the 1970s and the 2000s. Moura-Leite & Padgett (2011) examined the background of CSR and identified CSR’s evolution from a mere acknowledgement by firms to become a crucial part of firms’ overall strategic planning.

Beginning in the 1960s, managers voluntarily and philanthropically engaged in CSR. In the 1980s, business and social interests grew closer, and firms became more responsive towards their stakeholders. Researchers also focused on developing newer CSR definitions, which helped develop alternatives or complementary concepts and topics. In the 1990s, CSR as a concept became nearly universally sanctioned and was grouped with strategy literature, while the relationship between CSR and market outcome was made increasingly explicit (Porter & Kramer, 2006; Kotler &Lee, 2005; Hart, 1997). In the 2000s, CSR became mandatory and was transformed into an important strategic issue for firms. As the awareness and importance of CSR have greatly increased since then, it is pertinent to analyse the current CSR-CFP relationship to further highlight the importance of social and environmental reporting as a narrative reporting component. Thus, this study examined the relationship between CSR and corporate financial performance (CFP) among Malaysian public companies.

## 2. Literature Review

CSR can be described as a multidimensional concept with a wide spectrum, as there is no fixed definition for the term (Dahlsrud, 2008; Lantos, 2002; Clarkson, 1995; Carroll, 1979). Initially, CSR was developed from the necessity to deal with bad organisational conducts concerning social issues which may appear to have no direct impact on a firm’s bottom lines, such as environmental, human rights violations, and other internal and external violations (Banerjee, 2008). Hence, CSR is seen as charitable actions which firms, who act beyond law and regulations, adopt to confront these issues. CSR involves a set of actions that changes a firm’s operations to enhance, retain, or diminish its impact on society and the environment (Porter & Kramer, 2006).

## 2.1 CSR Dimensions

CSR is a multidimensional concept encompassing large, varied ranges of corporate behaviour, involving their resources, processes, and outputs (Carroll, 1979; Waddock & Graves, 1997). Thus, fundamentally different aspects of CSR are expected to be motivated differently and to have different implications on CFP. This emphasises the importance to focus on particular dimensions when considering CSR in conceptual and empirical work. Bursa Malaysia (2006) outlines CSR into four dimensions, which are workplace, marketplace, community, and environment. These dimensions are discussed in the following sections.

### 2.1.1 Workplace

Workplace’ activities refer to the activities addressing the variety of matters faced by employees and employers during work. This includes personal and professional conflicts, discrimination and harassment, labour relations, and health and safety (Fox & Stallworth, 2009). Examples of workplace initiatives are employee diversity, compliance with health and safety standards and regulations, provision of employee training, and provision of support for employee education. It also includes monetary welfare such as wages, pensions, and employee benefits. (Karim et al., 2020). Effective workplace activities facilitate teamwork, transparency, accountability, and flexibility among a firm’s employees (Bodker, Kensing & Simonsen, 2004). For instance, Stallworth & Kleiner (1996) assert that an effective workplace design enhances information dissemination and networking regardless of occupation boundaries by allowing free communication amongst departments. Meanwhile, Feng et al. (2015) also suggest that healthy workplaces encourage employees to be more productive and this helps towards achieving organisational goals.

### 2.1.2 Marketplace

Marketplace’ can be referred to as the area where a firm’s activities are set up. Marketplace activities are activities which various firms compete with one another to promote and sell their goods and services (McAdam & McCormack, 2001). Marketplace activities generally focus on firms’ customer service targets and the management of suppliers and service providers. These marketplace activities also include research and development programmes that ensure the quality and safety of products to continuously enhance services and develop more innovative goods and services which meet social needs (Szekely & Strebel, 2013). The activities within marketplaces focus on the aspect of responsibility within the supply chain management, as well as activities to improve the quality of products and services, innovation, fair pricing, and ethical advertising (Karim et al. 2020). For example, multiple firms have voluntarily implemented supplier scorecards which encourage disclosure from suppliers and service providers on how they measure their efforts of reducing greenhouse gases, water usage, and energy, especially in less developed countries (Kantabutra & Avery, 2013). These activities reflect how firms incorporate responsible business conduct into their practices and operations (Faisal, 2010).

### 2.1.3 Community

'Community' refers to the place where the operations of firms are conducted, while a key stakeholder of firms is the community it operates in (Porter & Kramer, 2006). Community activities can be referred to as initiatives that firms take for the community's benefit. The focus of these activities is giving back to the community through the performance of voluntary activities to assist the people living in the community (Wenger, McDermott & Snyder, 2002). Firms that live in and operate within community need to develop interdependent relationships as firms influence the community and the community depends on firms. Community activities are used to promote economic development. This could be in the form of efforts to improve the community's engagement, social welfare, community healthcare and education, security, and local infrastructure. The examples of community activities are charitable sponsorships, charitable donations, supporting government and non-government campaigns, and medical research assistance. On a bigger picture, a community-oriented perspective should focus on sustainable cities, reducing inequality, and issues of poverty (Carroll, 2021). Some studies discover that firms continue to have a narrow view on community engagement, thinking that monetary donations are the best practice in engaging with the community (Zhang et al., 2022).

### 2.1.4 Environment

'Environment' is often referred to as the Earth's overall condition or how healthy the people inhabiting it are (Evans & Kantrowitz, 2002). Leading firms have used environmental initiatives to encourage marketplace's competitive landscapes to improve operational efficiencies, rethink product designs, and discover new and innovative technology. In general, environment initiatives affect environmental policy, performance, disclosure, and impact (Clarkson, 1995). Yusoff & Adamu (2016) find firms struggling to improve their environmental performance. One of the reasons is due to their determination to comply with the regulatory framework and market demands while simultaneously searching for competitive advantages.

Environmental activities reflect firms' efforts in protecting and preserving natural resources and are generally concerned with global warming impediments, biodiversity, effective utilisation of natural resources, waste management and preservation of ecological systems (Epstein & Buhovac, 2014). These environmental activities also include producing renewable energy, reducing air and water pollution, reducing the production of hazardous chemicals, reducing waste generation, recycling, monitoring energy usage, and reducing greenhouse gas emissions (Kantabutra & Avery, 2013). Oduro et al. (2020) suggest that environmental-related CSR should focus on innovation, eco-efficiency, and environmental leadership. In the case of environmental leadership, the key is to prevent or preserve healthy ecological systems through the reduction of air and water pollution and the management of climate change (Torugsa et al., 2013).

## 2.2 Theoretical Relationship between CSR and CFP

The shareholder theory as proposed by Friedman (1970) argues that the firms' singular social responsibility is to maximise their shareholder's wealth within the boundaries of the law and business ethics. This is supported by Sternberg (2000), who claims that the use of business resources for non-business purposes is an unjustified way to appropriate the owner's property. Friedman (1970) further adds that firms should not focus on CSR activities unless it acts as a value-creator for firms and adheres to the desires of the firm's shareholders. He argues that CSR activities put firms at a relative competitive disadvantage compared to other firms who are less socially active. Friedman's claim is also supported by Sternberg (1999), who states that business accountability towards all stakeholders undermines private property and could be used in rationalising government intervention.

Friedman's arguments are further supported by Jensen (2002), who concedes that firms have to attend to various constituencies to succeed. Ultimately, firms should be guided by a single objective function. In the case of for-profit organisations, the objective function is wealth creation. Hence, a high level of a firm's social performance may lead to lower financial performance in comparison to its competitors, which is also noted by Preston and O'Bannon (1997). Similarly, stakeholder theory is often highlighted when considering CSR (Dahlsrud, 2008; Greenwood, 2007) and is often used to criticise Friedman's shareholder theory. Stakeholder theory states that the interest of all stakeholders should be considered and accounted for (Freeman, 1984). Stakeholders include 'groups or individuals who benefit from or are harmed by corporate action/ (Melé, 2008). Clarkson (1995) supplies a narrower version of this wide group of stakeholders and categorises them as shareholders, employees, customers, suppliers, creditors, communities, and the government.

Freeman (1984) highlights the relationship between CSR and CFP. It is believed that CSR increases the satisfaction of various stakeholders, resultantly improving their firm's reputation and ultimately CFP (Saeidi et al., 2015; Allouche & Laroche, 2005). Furthermore, theorists supporting the positive CSR-CFP relationship propose that by 'addressing and balancing the claims of multiple stakeholders', managers can boost their firm's efficiency in adapting to external demands (Orlitsky, Schmidt & Rynes, 2003). Additionally, Barnett and Salomon (2012) suggest that a firm's success depends on the extent it is able to manage its relationships with its key groups, which consist of not only financiers and shareholders, but also employees, customers, and communities. While all stakeholders have the potential to affect a firm's performance, there are other influencing mechanisms. Market constituents, such as creditors, suppliers, employees, and customers, could cause a shortfall in economic rents, as a result of making unfavourable economic choices (Delmas & Toffel, 2008). Non-market constituents, such as the general public and the media, could indirectly exercise their influence by conveying information (Henriques & Sadorsky, 1999). Hence, while CSR engagement does incur extra costs for firms, any attempt to lower their implicit costs from partaking in socially irresponsible actions would incur higher explicit costs for firms, putting them at a competitive disadvantage. Thus, the dissatisfaction of any stakeholder group has the potential to affect economic rents and compromise the future of a firm (Clarkson, 1995). Therefore, CSR is more frequently argued as a prerequisite to protect the bottom line and boost shareholder value (Epstein & Rejx-Buhovac, 2014).

## 2.3 Empirical Evidence on CSR

Tufail et al. (2017), Rosli et al. (2015), Ahamad, Almsafir and Al-Smadi (2014), Lu and Abeysekera (2014), Cormier Ledoux & Magnan (2011), Hassan (2010), Amran & Devi (2008), and Thompson & Zakaria (2004) find that firm size has a positive relationship with CSR disclosure. This is because larger firms have more susceptibility to scrutiny by various social groups and therefore, are confronted with greater pressures to disclose their corporate social activities to be socially responsible and legal (Hassan, 2010). Additionally, larger firms are able to engage in more activities due to their greater availability of resources, produce more information regarding these activities, and are more capable of bearing the costs of these processes (Andrew et al., 1989).

Margolis & Walsh (2001) are among the earlier scholars who have explored the CSR-CFP relationship and found positive correlations between environmental performance, which is measured through pollution levels, and financial performance, which is measured through the average return on capital (ROC) and return on equity (ROE). Additionally, Orlitzsky et al. (2003) discover a positive association between CSR and CFP after developing a meta-analysis of 52 studies. A plethora of studies on the relationship between CSR and CFP have been contributed to an international context, including Kartadjumena et al. (2011), Branco & Rodrigues (2008) and Waddock & Graves (1997). These studies were based on the context of the manufacturing industry in Indonesia, the banking industry in Portugal, and the S&P 500 respectively.

In the Malaysian context, Santhirasegar et al. (2018) found that the CSRD index, which is measured through content analysis, has strong positive effects on ROA and ROE, but has an insignificant relationship with EPS. Yusoff & Adamu (2016) measure CSRD through content analysis and find a positive correlation between the four CSR dimensions and CFP (ROE and EPS) when conducting a study on the top 100 CSR-engaged companies in Malaysia using Pearson's correlation analysis. Ahamed et al. (2014) have reached a similar conclusion that the effects of CSR on ROA and ROE are significantly positive. Waworuntu et al. (2014), conducted a study on ASEAN listed companies, find that Malaysian public listed companies have a weak correlation between CSR and CFP. On the contrary, Brammer & Millington (2008) use charitable donations to measure CSR and find that the market penalises firms' attempts to increase CSR activities, reflecting a negative relationship. Dagiliene (2013) finds no relationship between CSR (measured through the number of sentences) and CFP (ROA and market value added) in the context of Lithuania, a developing country. Fauzi, Mahoney & Rahman (2009), McGuire et al. (1988), and Aupperle, Carroll & Hatfield (1985) also find no relationship between CSR and CFP. This implies that the positive and negative effects of CSR cancel each other out. Inoue & Lee (2010) studied the CSR-CFP relationship in the tourism sector and used CSRD dimensions which include employee relations, environmental issues, product quality and diversity, and community relations as independent variables. Their study reveals mixed findings from different industries and CSR dimensions. Additionally, Saleh, Zulkifli & Muhamad (2008), examining the long-term CSR and CFP relationship on the 200 largest companies listed on Bursa Malaysia market, find that environment has a negative relationship to ROA while workplace, community, and environment dimensions have a negative influence on Tobin's Q.

In more recent studies, Wang et al. (2016), Barnett & Salomon (2012), and Brammer & Millington (2008) suggest a curvilinear relationship between CSR and CFP and claim that the relationship was U-shaped. Matuszak & Rozanska (2018), Zhang & Guo (2018), and Han, Kim & Yu (2016) found a mix of both U-shaped and inverse U-shaped relationships between their CSRD variables and CFP. Oware (2022), investigating the relationship between CSR activities, finds the relationship to be positively and significantly related to the financial performance of firms. Apart from large-sized firms, Oduro (2022) find that small and medium enterprises (SMEs) could enjoy positive financial returns from their CSR involvement. In line with the proposition put forward by the stakeholder theory, this study seeks to determine if CSR engagement enhances the satisfaction of stakeholders towards the firm, thereby improving the firm's return on assets (ROA) and valuation. Based on Clarkson's (1995) version of stakeholders, these parties are made up of employees, customers, suppliers, creditors, and communities. Therefore, this study adopts the dimensions of workplace, marketplace, community, and environment in assessing the relevance of CSR disclosure in relation to ROA and firm's valuation, measured by Tobin's Q.

## 2.4 Hypothesis Development

This study assumes the viewpoint that CSRD is positively associated with CFP. This study assumes that CSR benefits firms by building brand acknowledgment, customer loyalty, and market position (Fombrun & Shanley, 1990). Hence, this study hypothesises that the relationship between CSR and CFP as a positive one. The hypotheses are as follows:

H1: There is a positive relationship between the CSR activities and ROA in the manufacturing industry.

H2: There is a positive relationship between the CSR activities and Tobin's Q in the manufacturing industry.

# 3. Methodology

The initial sample consisted of 300 Malaysian publicly listed companies. These samples were chosen from the Malaysian manufacturing industry from the period of 2017 to 2019. The sample size of 300 companies was chosen to ensure the study yielded generalisable results within the limited time constraints. The manufacturing industry was chosen to represent the population as this industry consisted of 415 out of the 954 publicly listed companies (43.5 %) on the Malaysian stock exchange. This study focused on a specific industry because the industry type used in the research's sample affects the results (Inoue & Lee, 2010; Aaker & Jacobson, 1987). The samples were chosen through a simple random sampling to prevent bias. Publicly listed companies on Bursa Malaysia were chosen as a sample criterion due to the availability of information and their mandatory requirement of minimum disclosure in every dimension of the CSR framework. The period of 2017–2019 was chosen to reflect the recency of the study.

## 3.1 Independent Variable

The study's independent variable was CSRD and its dimensions were based on Bursa Malaysia's framework, which includes workplace, marketplace, community, and environment. CSRD was collected in the form of secondary data from annual reports and stand-alone sustainability reports sourced from Bursa Malaysia's website. CSRD is often used as a proxy for CSR activities. This is supported by disclosure theories such as the corporate control contest hypothesis, which argues that managers often make disclosures to reduce chances for undervaluation of the organisation or to provide justification for the organisation's poor performance (David & Stout, 1992). Furthermore, firms disclose CSR for accountability and transparency purposes. Additionally, organisations are not likely to fraudulently CSRD report because the costs of such actions, if uncovered, would be far greater than if they have not made the disclosure. Past empirical studies have employed several variations of comprehensive CSR measures, including reputation indices, content analysis, questionnaire-based surveys, and one-dimensional measures. Thus, this study used content analysis to measure CSRD, employing a coding method involving pre-specifications of CSRD dimensions and the assignment of scores to each CSR issue to develop a CSRD index.

A CSRD checklist developed by Ahmad, Rashid & Gow (2017) was used in this study. The checklist consisted of 42 CSR items and was adapted from Ghazali (2007) while incorporating important aspects from Hackston & Milne (1996). Each of the four CSR dimension was given sub-item disclosures which were adjusted based on whether the items were disclosed. In addition, this study adopted the scoring method introduced by Yusoff and Lehman (2008), who proposed that quantitative disclosure measures with denoted weights for varying disclosure items, based on each item's perceived importance, were assigned to every user category. A weight of (+4) is marked when the CSR checklist item had both quantitative and qualitative disclosures. However, a weight of (+3) was marked only for quantitative disclosures. This involved the disclosure of actual financial numbers or quantifiable information. A weight of (+2) was marked for non-quantitative, yet specific information regarding the disclosure of the dimensions. This involved the declaration or narration of CSR information that was not financial information in nature. This category also included lengthy (more than one sentence) descriptions, as well as pictorial information, including graphs and photos depicting certain events or messages. Finally, common qualitative disclosures were given the lowest weight (+1). This involved general information consisted of short statements (one sentence) of the organisations' intentions or general statements. Organisations that had not disclosed any information regarding the CSR item were given a score of zero. This scoring method has been extensively employed by past empirical studies (see Saleh et al., 2008; Al-Tuwaijri, Christensen & Hughes, 2004). The scores then were converted into a CSRD index by dividing the disclosure scores of each organisation against the maximum possible score (i.e., 4 x42= 168).

CSR index:

$$(n / N) \times 100\ \% \qquad (1)$$

where the total score for items disclosed by organisations for each CSR dimension was represented by 'n' and the total score for items expected to be disclosed by organisations was represented by 'N'.

## 3.2 Control Variable

The first control variable in this study was the firm size. There is nearly a consensus on the existence of a positive relationship between firm size and the extent of CSR disclosures (Rosli et al., 2015; Ahamad et al., 2014; Lu & Abeysekera, 2014). Total assets, total sales, and market capitalisation were used as proxies for firm size as they represented the most popular firm size proxies in corporate finance, according to a Dang et al. (2018). Furthermore, Dang et al. (2018) find that all three measures of firm size should be used as robustness checks. This is because different size proxies capture varying aspects of firm size, which leads to varying implications in corporate finance. For instance, market capitalisation is market-oriented, forward-looking, and reflects only equity ownership. In contrast, total assets measure organisations' total resources while total sales are product market-oriented and not forward-looking. These measures are also similar with previous empirical studies (Das, Dixon & Michael, 2015; Said, Zainuddin & Haron, 2009; Hamid, 2004).

The second control variable used was earnings per share (EPS). EPS is a good performance indicator which helps indicate how efficient an organisation is in generating its earnings from every outstanding share of common stock. Based on past research, EPS, a measurement of firm financial performance, is commonly associated with CSR performance. CSR is found to be positively related to EPS in the long run (Devie et al., 2019). Zakari (2017), measuring the social expenditure of firms, finds that EPS is positively related to the quantum of firm expenditure for societal causes. EPS was utilised in a CSR study of Finland's businesses as a market-based model for measuring financial performance (Kooskora et al., 2019). Past empirical studies have also used EPS as a control variable (Saleh et al., 2008). For instance, in investigating the effect of CSR on firm performance of listed companies in Indonesia, Kamatra & Kartikaningdyah (2015) adopted EPS as a control variable in measuring firm profitability.

## 3.3 Dependent Variable

This study used CFP as a dependent variable, which was measured through ROA and Tobin's Q, and was sourced from the OSIRIS database. CFP measurements are divided into two types, accounting-based and market-based measures. On the other hand, McGuire et al. (1988) claim that market-based measures, such as stock performance, provide a better evaluation to measure an organisation's capacity for generating future cash flows and reflect CSR changes faster than accounting-based measures (Galant & Cadez, 2017). However, market-based measures inevitably incorporate systemic market characteristics, such as recessions, or market distortions such as asymmetric information, while accounting-based measures are more specific towards an organisation's specific (or unsystematic) perceptions of CSR. Indeed, there have been multiple disputes regarding financial performance measurements when considering the CSR–CFP relationship, as supported by Davidson & Worrell (1990), Ullman (1985), and Cochran & Wood (1984).

Some researchers have combined both measurement types by using Tobin's Q as the indicator (Rodgers, Choy, & Guiral, 2013; Garcia-Castro, Arino & Canela, 2010). Thus, to achieve more accurate and comprehensive data, while considering the limitations of both measurement types, both accounting-based measures and market-based measures were used in this study. This is consistent with prior empirical research (Saleh et al., 2008). ROA was chosen as the dependent variable to measure CFP because ROA is less likely to be manipulated and represents the most widely used CFP measurement (Yoshikawa & Phan, 2003). ROA is suitable in measuring a firm's operating and financial performance (Klapper and Love, 2002) because it reflects the organisation's effectiveness in using its assets to serve its shareholders' economic interests (Ibrahim & Samad, 2011).

Tobin's Q was chosen as another dependent variable because it is crucial in testing the robustness of reported results to the usage of an alternative performance measure. Tobin's Q principally represents the community of investors confined by their insight, brightness, or doubt (Demsetz & Villalonga, 2001). Tobin's Q also represents a traditional measurement of expected long-run firm performance (Bozec, Dia & Bozec, 2010). Additionally, Tobin's Q ratio reflects a firm's success in leveraging its investments to develop the firm which is valued more in terms of market value instead of its book value (Kapopoulos & Lazaretou, 2007). When measuring the impact of firm CSR on financial returns, prior research has adopted Tobin's Q as a proxy for financial performance (Dakhli, 2021). Oware (2022) includes Tobin's Q, apart from ROA and ROE, in measuring a firm's value, as a result of their involvement with CSR. Table 1 below summarises the study's variables and their respective proxies.

**Table 1 - Description of variables**

| Variables | | Proxy |
|---|---|---|
| **Dependent Variables** | Corporate financial performance | Return on Assets<br>Tobin's Q |
| **Independent Variable** | CSR disclosure | Workplace<br>Marketplace<br>Community<br>Environment |
| **Constant variable** | Firm Size | Total Assets<br>Total Sales<br>Market Capitalisation |
| | Earnings per share | Earnings per share |

The formula for return on assets (ROA) and Tobin Q are as follows:

Return on Assets (ROA): Net Income / Total Assets (2)

Tobin's Q: Market Value of Assets / Replacement Cost of Capital (Book Value) (3)

## 3.4 Framework for Data Analysis

The data's descriptive statistics were analysed and explored to determine the current nature and extensiveness of CSRD for manufacturing firms in Malaysia. This is followed by Pearson's correlation coefficient, which is used to determine the direction and strength of the relationship between CSRD and CFP (Hair et al., 1998). An output of the analysis of variance (ANOVA) test was then used to determine the significance of the model in predicting CFP. A multiple regression analysis was also conducted to explain the statistical relationship and significance between each individual dimension of CSRD and CFP. The analyses were performed through SPSS Statistics software. The following linear models were set up:

$$ROA = \beta_0 + \beta_1 WORK_{+} \beta_2 MKTP + \beta_3 COMM + \beta_4 ENV + \beta_5 TASSET + \beta_6 TSALES + \beta_7 MKTCAP + \beta_8 EPS + \varepsilon \quad (4)$$

$$TOBIN's\ Q = \beta_0 + \beta_1 WORK_{+} \beta_2 MKTP + \beta_3 COMM + \beta_4 ENV + \beta_5 TASSET + \beta_6 TSALES + \beta_7 MKTCAP + \beta_8 EPS + \varepsilon \quad (5)$$

Where:

WORK= Workplace activities disclosure
MKTP= Marketplace activities disclosure
COMM= Community activities disclosure
ENV= Environmental activities disclosure
TASSET= Total Assets
TSALES= Total Sales
MKTCAP= Market capitalisation
EPS= Earnings per Share
ε = disturbance term

## 4. Results and Analysis

An initial sample of 300 firms was randomly collected from the manufacturing industry for this study from year 2017 to 2019. However, after data cleaning, only 291 firms remained. Firms with incomplete data were removed from the sample to prevent unbalanced data. The descriptive statistics are presented in Table 2, showing the minimum, maximum, mean, and standard deviation for all variables. The minimum of zero (0) for ENV, COMM, WORK, and MKTP showed that some firms had not yet presented their CSR activities. Disclosures under ENV and WORK are more common among the sample firms, ad indicated under the Maximum column.

**Table 2 - Descriptive statistics**

| Variables | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| **ENV** | 291 | .00 | 44.00 | 11.0137 | 8.2933 |
| **COMM** | 291 | .00 | 25.00 | 6.8969 | 5.6204 |
| **WORK** | 291 | .00 | 40.00 | 14.2543 | 8.7654 |
| **MKTP** | 291 | .00 | 16.00 | 5.3849 | 3.8573 |
| **ROA** | 291 | -42.34 | 38.43 | .9458 | 7.7973 |
| **TOBINQ** | 291 | 0.05 | 3.17 | .5698 | .4579 |
| **EPS** | 291 | -.14 | .15 | .0113 | .0362 |
| **MKTCAP** | 291 | 1489.00 | 17958198.00 | 299425.03 | 1708176.78 |
| **TSALES** | 291 | 1635.00 | 4730216.00 | 218888.34 | 565640.62 |
| **TASSET** | 291 | 2320.00 | 9496152.00 | 362353.84 | 1156326.94 |

### 4.1 T-Test Results

Table 3 shows the ANOVA test results for the constant variables of the sample firms selected from 2017 to 2019. Total sales (TSALES), market capitalisation (MKTCAP), total asset (TASSET), and earnings per share (EPS) were all found to be statistically significant, suggesting that the samples were randomised.

**Table 3 - ANOVA for constant variables**

| | F-value |
|---|---|
| TSALES | 28.948* |
| MKTCAP | 6.725* |
| TASSET | 19.136* |
| EPS | 5.330* |

*-Significance level is 5%

### 4.2 Pearson Correlation Results

Table 4 presents the correlation results for the study's dependent, independent, and control variables. The level of significance is separated into 0.05(*) and 0.01(*). All independent variables correlated positively with ROA, but only ENV was statistically significant. For Tobin's Q, ENV and MKTP correlated positively while COMM and WORK correlated negatively, with none of the independent variables showing statistically significant results. Thus, we found a correlation between ENV and ROA that could support our hypothesis.

**Table 4 - Correlation matrix**

| | ENV | COMM | WORK | MKTP | ROA | TOBIN Q | MKTCAP | TASSET | EPS | TSALES |
|---|---|---|---|---|---|---|---|---|---|---|
| ENV | 1 | | | | | | | | | |
| COMM | .454** | 1 | | | | | | | | |
| WORK | .687** | .484** | 1 | | | | | | | |
| MKTP | .579** | .454** | .597** | 1 | | | | | | |
| ROA | .161** | .078 | .060 | .092 | 1 | | | | | |
| TOBINQ | .054 | -.050 | -.006 | .078 | .268** | 1 | | | | |
| EPS | .359** | .302** | .205** | .183** | .165** | .346** | 1 | | | |
| MKTCAP | .433** | .444** | .321** | .282** | .117* | .176** | .840** | 1 | | |
| TSALES | .202** | .042 | .012 | .027 | .637** | .327** | .401** | .262** | 1 | |
| TASSET | .427** | .441** | .322** | .292** | .137** | .153** | .815** | .975** | .265** | 1 |

** Correlation is significant at the 0.01 level (2-tailed)

* Correlation is significant at the 0.05 level (2-tailed)

## 4.3 Regression Results

Table 5 shows the results of the multivariate regression analysis and the adjusted $R^2$ and *F* statistics for ROA. The coefficient of COMM, WORK, and MKTP are positive, suggesting that these disclosures have a positive impact on ROA, thus supporting our hypothesis. However, it is surprising that environmental disclosures (ENV) are negatively related to ROA.

**Table 5 - Regression analysis for ROA**

| | Relationship | Coefficient | t-stat |
|---|---|---|---|
| Intercept | | -2.054 | -2.766 |
| ENV | - | -.001 | -.017 |
| COMM | + | .049 | .866 |
| WORK | + | .015 | .226 |
| MKTP | + | .059 | .982 |
| EPS | + | .689 | 13.625** |
| MKTCAP | - | -.168 | -1.883 |
| TSALES | + | .290 | 1.419 |
| TASSET | - | -.248 | -1.128 |
| F stat. | 26.841** | | |
| $R^2$ (adj.) | 0.416 | | |

** Correlation is significant at the 0.01 level (2-tailed)

* Correlation is significant at the 0.05 level (2-tailed)

The regression results for Tobin's Q are reflected in Table 6. The $R^2$ is stronger than the model for ROA, suggesting that the variables adopted in this study are more suitable for measuring Tobin's Q. The coefficient of MKTP is positive and significant at 0.01 suggesting that these disclosures have a positive impact on Tobin's Q, thus supporting our hypothesis.

**Table 6 - Regression analysis for Tobin's Q**

| | Relationship | Coefficient | t-stat |
|---|---|---|---|
| Intercept | | .572 | 11.259 |
| ENV | - | -.106 | -1.317 |
| COMM | - | -.128 | -1.950 |
| WORK | + | .005 | .058 |
| MKTP | + | .177 | 2.534* |
| EPS | + | .211 | 3.57** |
| MKTCAP | + | .537 | 5.169** |
| TSALES | - | -.423 | -1.778 |
| TASSET | + | .135 | .526 |
| F stat. | 10.41** | | |
| $R^2$ (adj.) | 0.206 | | |

** Correlation is significant at the 0.01 level (2-tailed)
* Correlation is significant at the 0.05 level (2-tailed)

## 5. Conclusion

This study aimed to examine the current nature and extent of CSRD. The study concludes that CSRD levels in the manufacturing industry in Malaysia have, to a certain extent, a positive relation with firm performance. This study concludes that CSRD dimension such as workplace, marketplace, community, and environment has a mixed relationship with CFP. One of the most significant findings is that the disclosures in the marketplace have a significant positive relationship with firm performance. This suggests that firms with transparent and healthy operational practices, such as responsible supply chain and innovative focus on research and development, would translate demand-sustainable end-products which will eventually lead to greater firm performance. However, it is worthy to note that Environmental disclosures are negatively associated with both ROA and Tobin's Q, while the dimension on Community is negatively associated with Tobin's Q, suggesting corporate responsibility actions which do not directly benefit firm products or processes draws little attention from the public.

It appears that investors continue to hold traditional views on CSR. The current study shows that the market undervalues organisations which engage in CSR activities, such as Community and Environment activities, that they believe do not directly benefit or contribute to the organisation's performance and overall business. This traditional view is misleading as CSR dimensions have positive impacts on firm performance. Hence, this study provides investors with valuable insight and a better understanding of CSR, as well as increasing investor confidence by discouraging myopic views and illuminating the benefits of taking into account every stakeholder, and not just those directly contributing to the organisation's bottom line. Nevertheless, there are several limitations to this study. One of the limitations is the scope of samples utilised in the study. The samples were confined to Malaysian listed firms within the manufacturing industry. Further studies could investigate firms in other industries or sectors, especially those that are sensitive to the four CSRD dimensions. The study period was also constrained to a short time of three years, covering from 2017 to 2019. As the effect of good CSR practices may not immediately translate to improved financial performance, a longer study period would be useful in determining the practical effect of CSR on firm performance.

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