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SEPARABLE OR INSEPARABLE - RELATIONSHIP BETWEEN COMPANIES' CORPORATE SOCIAL RESPONSIBILITY ACTIVITIES AND FINANCIAL PERFORMANCE: A MALAYSIAN PARADIGM

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***Abstract:** The study of corporate social responsibility CSR has been a very prominent one. This study examines the CSR activities of Malaysian firms and their respective financial performances. The purpose of this study is to examine the relationship between firms' CSR activities and their financial performance. A total of 50 listed companies were selected based on market capitalization from the years 2015 – 2019. Financial and CSR information were obtained from the annual reports of firms. An in-depth content analysis approach was applied together with the method of a checklist to measure CSR, coupled with financial performance. The statistical software package (SPSS) was used to analyze the data collected. The results indicated no significant relationship between the CSR activities of the firm and their financial performance during the said period.*

***Key words:** CSR, financial performance, return on assets, return on equity, profitability, competitiveness.*

1. INTRODUCTION

Corporate Social Responsibility (CSR) has been a hot topic of recent years [1] with some arguing that it adds credibility and raises the ethical level of an organization. There have also been claims that a company is viewed more favorably when they are actively participating in these types of activities [1]. While [2-3] defined CSR as an action to take care of communities, but it goes beyond the confinements of the definition. In a study by [4-5] argued that CSR is merely acts of “empty promises”. On the contrary, [6] noted that people tend to have a positive perception of companies who undertake CSR activities.

In the many studies conducted over the past, there have been studies done regarding the relationship between CSR and financial performance [7-10]. However, most of these studies are prevalent in other countries where the awareness on these social issues and CSR is generally more predominant. In Malaysia, when [8] conducted their research in Malaysia, they said that the CSR reporting was in the infancy stage. Nine years later, according to [9] although

CSR was indeed getting increasing attention, however, when it came to where Malaysia was in terms of its progress on this area of research, they also mentioned that it is still in the infancy stage. They also carried out a test to gauge if local people were aware and the results were underwhelming, in that they identified the reason which was the bulk of government programs were aimed at firms. [10] studied the effect that employee-based CSR would have on employee job satisfaction and found that there was a positive correlation between both variables. Would this then translate into better financial performance as per the findings of [11]?

The research [1] have pointed out that there are various dimensions to CSR in Malaysia, viz. environment, energy, employees, consumers, or even general themes. Bursa Malaysia also released a form or standard reporting view that would be required which involves community, workplace, marketplace, and the environment [12]. Amran et al. [12] pointed out that since 2007, the government has mandated the reporting of CSR practices for public listed companies. They also found that the focus of

CSR was on internal issues like employee wellness. Thus, accounting bodies such as the Malaysian Accounting Standards Board (MASB) saw this phenomenon and found that the lack of focus on environmental aspects, which is essentially a key external stakeholder. Thus, with all these new reporting regulations in respect to CSR in Malaysia, is it impacting financial performance, involving return on assets (ROA) and return on equity (ROE), of form in Malaysia favorably or otherwise?

The gaps in the research [12-15] are that there is already so much awareness being thrown in these countries. The same cannot be said for Malaysia. There have not been public campaigns to promote ethics. Thus, there is a need to find out whether the theories that have been tested in various other countries by [16] applies for Malaysia or not. Hence this study focuses on whether firms engaged in CSR activities registers a better financial performance or otherwise.

The objectives of this study are to:

- Analyze the correlation between CSR activities and Return on Assets (ROA);
- Evaluate the correlation between CSR activities and Return on Equity (ROE);
- Explain the correlation between CSR activities and net margin;
- Determine whether CSR activities will attract more investors.

2. LITERATURE REVIEW

2.1. Dimensions of CSR

Researchers have identified the various definitions of CSR, from which it is apt to discuss the various dimensions explicitly related to the environment, economy [17], the stakeholder [21] and the social dimensions. The article [18] also provided insight as to the multiple definitions of the CSR term. [19] also carried out an analysis on the various definitions and found that the dimensions ultimately come down to these four aspects:

i) Environmental aspect - the research [55] pointed out the fact that many people now are aware of the challenges the environment is going

through. The impending news about climate change and the effects that come with it. It has deeply resonated with many people pointed out; consumers are equipped with knowledge on the importance of protecting the environment [20].

ii) Stakeholder aspect - this category of stakeholders involves the public as well as employees. It is for all the people who will be affected by and through ethical actions of the businesses. Companies are also being pressured into revealing the developments in terms of women in leadership. Employees' working time are also a part of this as it may not be the best thing in the long runs for firms to overwork their employees as it can certainly tarnish performance and the reputation of the firm. [21] conducted a study in Malaysia that found if a firm were to be active in CSR activities, which would attract more job seekers.

iii) Economy aspect - [22] made a very good point on the fact that the economic aspect of a firm is very important too. Essentially a firm must be aware of the actions taken and how it can affect the stakeholders and mass public around them economically. As pointed out by [23], making an economic gain will also have an impact economically. Thus, the firms with power have a responsibility to make sure that they are using it the right way and not abusing it. Thus, this can be judged from the way the business reports the operations side of things as well as looking at the financial statements and the decisions made to increase economical gain.

iv) Social aspects - this part is where the companies really give high importance into anything that can benefit society. For instance, giving back in terms of education, the arts, various donations that can help communities or even supporting local businesses as mentioned by [7]. The concept of volunteerism is important, which is essentially going beyond what is required of the firm. Firms are even encouraged to carry out their usual business operations with the needs of society in mind [21].

2.2. CSR scenario in Malaysia

In Malaysia, the CSR growth has improved. From initial studies [24], stakeholders are getting increasingly knowledgeable on CSR activities and the contributions towards financial

performance. The research [25] conducted a study on small businesses, comprising of wet market sellers and stall owners. What they found was that these stall owners in their own way, practice CSR. This was an important discovery as through this, is it fair to assume that CSR in Malaysia has moved into the grass roots. The form of charity these small business owners involves themselves in are charity and more socially focused activities.

Studies [26] concluded that among insurance companies, there was a positive relationship between CSR and return on assets, but it was a negative relationship between CSR and return on equity. The explanation was that investors are looking for wealth maximization. Thus, they may not be interested in short term gains but rather long term.

3. HYPOTHESIS DESIGN

Based on literature reviewed, this study will involve hypothesis testing as most of the previous studies involved hypothesis testing [27-28].

Set 1 of hypothesis consists of:

H0: Firms with CSR activities are not strongly inclined to achieving ROA;

H1: Firms with CSR activities are strongly inclined to achieving ROA.

These hypotheses will aim to test whether the number of CSR activities influences profit generation. Studies [21] stressed that publicity of CSR activities has an impact on firm's performance.

Set 2 of hypothesis consists of:

H0: The CSR strong firms do not have a better return on equity;

H1: The CSR strong firms have a stronger return on equity.

This set of hypotheses aims to test the shareholders interest with regards to CSR. Finding out whether the dividends given out by CSR active firms better than those that are not as active. Of course, the element of disclosure in CSR matters as well.

Set 3 of hypothesis consists of:

H0: CSR activities and net margin of firms are not correlated;

H1: CSR activities and net margin of firms are correlated.

This set of hypotheses aim to prove whether the studies done overseas can be applied to the firms here in Malaysia. The aim here also will be to reject the null hypothesis.

Set 4 of hypothesis consists of:

H0: A firm with CSR activities will not attract more investors;

H1: A firm with CSR activities will attract more investors.

This set of hypothesis relates to the social identity theory and the signaling theory. The aim would be to reject the null hypothesis.

The research framework (Figure 1) depicts the relationship of firms practicing CSR activities and financial performance. The related hypothesis corresponds to two four distinct areas of financial performance i.e., ROA, ROE and net margin.

4. METHODOLOGY

In this research, the researcher adopted a content analysis, involving 50 companies listed in Bursa Malaysia (Malaysian Stock Exchange). The time frame that this study entails was for five years, i.e., 2015 to 2019.

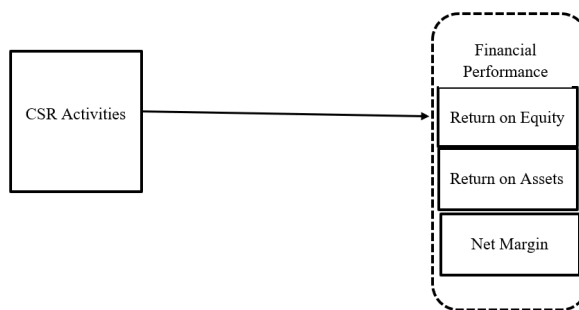


Fig. 1. The proposed research framework.

This list of companies will comprise of those that are from various industrial sectors. These companies should have sustainability reports as well along with their annual reports. Any company that does not have annual reports over the past five years will not be included in this study. Thus, to be eligible, the company must have annual reports over the past five years concerned and must have partaken in some sort of CSR activity.

As the study used secondary data. The research instrument in this study will be the annual reports of companies. The years of the annual reports taken will range from 2015 to 2019. The annual reports will be obtained from the company's website or from Bursa Malaysia. The compact and complete annual reports of these companies will be crucial in this study. Content analysis [25] is a technique that is used in research that has become paramount to the field.

As pointed out by [27], the most widely used ratios to measure financial performance in firms would be the Return on Assets (ROA), Return on Equity (ROE) and net margin. [21] used the ROA in measuring firms' financial performance. ROA considers net income and total assets. ROE was also another one of the very frequently used indicators of firms' financial performance [21]. ROE considers the net income and shareholders' equity [23]. ROE shows how efficiently profits are created through asset management [25].

A total of 50 companies were selected. To explain the number of companies picked, usually the minimum in past studies was 30 for example in [17]. Thus, in this research, the researcher has selected an extra 20 to make it 50. The number of years used were consistent with past research as past research mostly used five years as the main number of years. The "N" referred to the statistical computation resembles $50 \times 5 \text{ years} = 250$. They were selected based on the market capitalization in Malaysia. Thus, these companies selected were on that list of firms with the highest market capitalization in Malaysia.

The reason the researcher went with this type of sample was that this can even out the field in terms of the companies being tested amongst each other. It would not be as suitable to measure a firm with a high market capital against a small

and medium enterprise. Also, the firms with large market capitalization are expected to be more present and engaged in the social activities like CSR.

Through the studies of past research, the word count of CSR reports or sustainability reports were one of the popular methods of measuring CSR. [9] used this recently in the analysis of airlines' CSR activities. This method analyzes the various annual reports or sustainability reports available through the various company websites or through Bursa Malaysia. However as pointed out by [6] and many others, there does not appear to be one fixed way of measuring CSR. In the early stages the word count was used, however recently, researchers have been using a checklist system [9-11].

In developing this checklist system, the base of it was developed by pioneer researchers such as [11-13]. Thus, now the modern research has called for experts to build upon these aspects in the checklist and researchers are more up to date in terms of what a modern CSR checklist should include. The main criterion for CSR is that the categories in the checklist spread over environment, workplace, community or social and marketplace.

For this checklist there are a total of 35 items. Therefore, after recording a particular company's CSR score, it will then be divided by the items and the scores will be multiplied by 100 to obtain the percentage. Thus, it becomes a score over 100 system. The scoring system has been widely used in past research among them being [9-10].

The score system will be as follows:

$$CSR \text{ Score} = \frac{\sum_{i=1}^{n_a} x_{ia}}{n} \quad (1)$$

Where n_a is the number of items projected for a th firm, $x_{ia} = 1$ if item i is disclosed, 0 if not disclosed and $n=35$.

The researcher used SPSS software to run a descriptive test to get to know the mean and other necessary figures of variables. This is synonymous with past research when it came to data analysis [6].

The researchers also ran a multiple regression test. This will aim to examine the relationship between the variables.

5. FINDINGS AND DISCUSSION

The summary on the descriptive results is shown in Table 1. The CSR scores had a mean of 58.04. What is inferred here is the mean value of the CSR variable is around 58 out of 100. This shows that most of the firms in Malaysia are active in CSR. This is because the value is positive (Luo, 2019). Thus, the firms that were selected were generally quite engaged in CSR activities. The return on assets showed that the mean was at 0.27, i.e., 27%. This shows that firms in Malaysia generally have a good ability to generate profits using assets. The minimum value was -0.7079 because certain companies had low net incomes at certain points in time. The return on equity had a mean of 18.76%. This shows that most of the firms have an ability to generate a fair number of profits through shareholders' equity. The same could be said for

the net margin. The mean was at 17.49%. This means that the companies' ability to have a strong bottom line is present.

A *correlation test* to analyze the relationship between the variables was conducted to test the hypothesis on the relationship between CSR activities and attraction of investors. The results of correlation test shown in Table 2 indicated that there was a negative correlation between the return on assets and the amount CSR activities of the firm. This was like the study done by [9]. The findings were that ROA and CSR had a statistically insignificant negative relationship. However, the chances of this happening in fact in the real world are not as likely as the values are not significant. Return on equity were positively correlated. These were synonymous with the findings in [14]. However, the level of significance was not achieved in this correlation set.

Table 1

Descriptive Statistics

	No.	Minimum	Maximum	Mean	Std deviation
CSR scores	250	.0000	91.4000	58.045360	16.4462054
Return on Assets	250	-.0779	12.6000	.273379	1.1281779
Return on Equity	250	-22.2700	307.9700	18.762750	39.7309527
Net Margin: Net Profit over Revenue	250	-19.9400	65.4100	17.496880	13.1549619
Valid N (listwise)	250				

Table 2

Correlation among CSR, ROA and ROE

		CSR scores	Return on Assets	Return on Equity
CSR Scores	Pearson Correlation	1	-.079	.044
	Sig. (2-tailed)		.214	.485
	No.	250	250	250
Return on Assets	Pearson Correlation	-.079	1	.083
	Sig. (2-tailed)	.214		.190
	No.	250	250	250
Return on Equity	Pearson Correlation	.044	.083	1
	Sig. (2-tailed)	.485	.190	
	No.	250	250	250

Table 3

Correlation between CSR and Net Margin

		CSR scores	Net Margin: Net Profit over Revenue
CSR Scores	Pearson Correlation	1	-.079
	Sig. (2-tailed)		.214
	No.	250	250
Net Margin: Net Profit over Revenue	Pearson Correlation	-.079	1
	Sig. (2-tailed)	.214	
	No.	250	250

The results of correlation test between CSR and net margin in Table 3 showed a negative relationship between the variables. This was inconsistent with the findings in [1,7]. However, with this data set, the results were not at the significance level, hence fail to reject null hypothesis.

For the model summary in terms of CSR and ROA in Table 4, the adjusted R square is 2%. The R value is 0.079, this means there is a slight positive correlation between the variables. It explains that 0.6% of the ROA is due to CSR performance.

In terms of the CSR and ROE, Table 5, shows that there is a minor correlation through examining the R value. However, the adjusted R value showing a negative 0.2%. This means that CSR is not really pulling much weight in terms of boosting the ROE.

The net margin and CSR ratios show roughly the same in Table 6. The R value shows a positive correlation. However, the adjusted R square is only 0.9%. This means that CSR has very little to do with the boosting of net margin.

The first Anova test is focused on the model on CSR and ROA as in Table 7. This Anova model came out statistically insignificant. Thus,

when looking at the hypothesis analysis, this will further prove that the null hypothesis would fail to be rejected.

The next model is regarding the CSR and ROE test model. This model aims to examine the significance of the model when it came to examining the ROE and CSR scores. The results are displayed in Table 8.

Table 4

Regression analysis between CSR and ROA				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.079 ^a	.006	.002	1.1269346

a. Predictors: (Constant), CSR scores

Table 5

Regression analysis between CSR and ROE				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.044 ^a	.002	-.002	39.7716911

a. Predictors: (Constant), CSR scores

Table 6

Regression analysis between CSR and Net Margin				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.112 ^a	.013	.009	13.0982413

a. Predictors: (Constant), CSR scores

Table 7

Anova^b test among CSR and ROA variables.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.968	1	1.968	1.550	.214 ^a
	Residual	314.955	248	1.270		
	Total	316.924	249			

a. Predictors: (Constant), CSR scores
 b. Dependent Variable: Return on Assets

Table 8

Anova^b test among CSR and ROE variables.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	775.323	1	775.323	.490	.485 ^a
	Residual	392283.278	248	1.270		
	Total	393058.601	249			

a. Predictors: (Constant), CSR scores
 b. Dependent Variable: Return on Equity

Table 9

Anova^b test among CSR and ROE variables.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	542.349	1	542.349	3.161	.077 ^a
	Residual	42547.854	248	171.564		
	Total	43090.203	249			

a. Predictors: (Constant), CSR scores
 b. Dependent Variable: Return on Equity

As seen in Table 8, the test model came out as statistically insignificant. This shows that the model cannot be used to explain the phenomenon that may occur in the real world through the testing used in this study.

The next test looks at the model used to examine the CSR scores and the net margin. The results are shown in Table 9. As shown in Table 9 the Anova test results came out to be statistically insignificant. The significance was just above the acceptable level. In this coefficient analysis, the results will be in three parts i.e., ROA, ROE and net margin. A similar method was used by [16]. As shown in Table 10, when values of independent values are 0, the ROA will show a statistically insignificant positive correlation. Also, when CSR increases by 1 unit, the model shows that there could be a

decrease in ROA. However, these results are statistically insignificant, thus they cannot be used to predict real life occurrences.

The next coefficient examination was on ROE and the results presented in Table 11 below. The results show an increase for ROE when CSR increases by 1 unit. However, the findings do not hit the significance value. Therefore, this phenomenon cannot be used to explain the findings in real life as the significance is not met.

The next result table will be for CSR and net margin as displayed in Table 12. As shown in Table 12, there could be a decrease in net margin if CSR were to increase by 1 unit. However, the results are statistically insignificant. Thus, the variables cannot be used to explain the real occurrence that may occur.

Table 10

Regression Coefficients^a for ROA.

Model		Unstandardized coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.587	.262		2.242	.026
	CSR Scores	-.005	.004	-.079	-1.245	.214

a. Dependent Variable: Return on Assets

Table 11

Regression Coefficients^a for ROA.

Model		Unstandardized coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	12.535	9.244		1.356	.176
	CSR Scores	.107	.153	-.044	.700	.485

a. Dependent Variable: Return on Equity

Table 12

Regression Coefficients^a for Net Margin

Model		Unstandardized coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	22.706	3.045		7.458	.000
	CSR Scores	-.090	.050	-.112	-1.778	.077

a. Dependent Variable: Net Margin – net profit over revenue

6. SUMMARY OF FINDINGS AND DISCUSSIONS

To summarize the of correlation, regression and Anova evaluation in reference to hypothesis, the findings are tabulated in Table 13 below.

In reference to the above findings and discussions, the first hypothesis aims to look at

the correlation between the net profitability of firms and the CSR performance of firms. As per the tests conducted between the CSR scores and net profitability, the p value was above 0.05. Therefore, the null hypothesis cannot be rejected. The second hypothesis aims to examine the relationship between firms' CSR activities and the respective return on equity of the firm.

Summary of Hypothesis testing among CSR, ROA, ROE and Net Margin

	Hypothesis	Decision	Remarks
1	H ₀ : Firms with CSR activities are not strongly inclined to achieving ROA. H ₁ : Firms with CSR activities are strongly inclined to achieving ROA	Fail to reject H ₀	Negative, insignificant
2	H ₀ : The CSR strong firms do not have a better return on equity H ₁ : The CSR strong firms have a stronger return on equity	Fail to reject H ₀	Positive, insignificant
3	H ₀ : CSR activities and net margin of firms are not correlated H ₁ : CSR activities and net margin of firms are correlated	Fail to reject H ₀	Negative, insignificant
4	H ₀ : A firm with CSR activities will not attract more investors H ₁ : A firm with CSR activities will attract more investors	Fail to reject H ₀	All +ve, except ROE, insignificant

Many investors used this formula to evaluate potential investments. However, the tests results presented an insignificant relationship between the variables. This was also found in the study done by [22].

The third hypothesis aimed to examine the relationship between CSR and the respective abilities of firms to generate profits through assets. The ratios implemented in this study were appropriate in measuring asset profit generation which was the ROA. In this study, there was a slightly positive but insignificant correlation. The correlation and insignificance were synonymous with [11-17].

In a country like Malaysia, could it be that firms are carrying out these activities as a form of social obligation as compared to a necessity in ensuring performance? This was pointed out in the study by [2].

Finally, CSR activities are weakly and insignificantly related to financial performance of firms [11-16]. In fact, the CSR activities are negatively related to ROA and net margin. It can be said that the CSR activities will not contribute to attracting more investors into the firm. The ratios used in this survey were all ratios that investors use to consider investing the firm.

Finally, the study presented in [19] pointed out in their study that while looking at the research, the overall value of the firm can come out as insignificant or negative when some researchers looked at it. Thus, as found through this study, the null hypothesis as to whether CSR active firms attract better investors cannot be rejected.

7. CONCLUSION

It can be observed through this study that there was a slightly negative insignificant correlation between the ROA and a company's CSR score. This could mean that whatever a company's CSR score is, it does not pose a significant effect on the ROA. The ROA being high could be all up to management of funds and assets by the company. The CSR scores do not seem to be of significance to that measure in this country. The same could be said regarding the net margin. There was a statistically insignificant negative correlation between CSR and net margin. However as shown, there was no significance between that happening in real life. Which means that CSR cannot be used to explain the net margin measurement on firms.

Return on equity showed a statistically insignificant positive correlation with CSR scores. This was only variable that showed a positive correlation, though significant.

Thus, what this study has contributed is that in terms of ROA, ROE and net margin ratios as measures of financial performance, CSR shows no significant correlation between variable as alluded by previous researchers such as [4].

This research study had its limitations. The first, being as acknowledged by many in this field, the method of measuring CSR have not been purely one single way. Secondly, this study was based a time of five years. Perhaps a longer period may yield a different result, incorporating the period during the Covid-19 pandemic.

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Separabilă sau inseparabilă - relația dintre activitățile de responsabilitate socială corporativă și performanța financiară a companiilor: o paradigmă malayziană

Studiul responsabilității social corporative (CSR) a fost unul foarte proeminent. Acesta a examinat activitățile de CSR ale firmelor din Malaezia și performanța financiară a acestora. Ca urmare, scopul acestei cercetări a fost de a examina relația dintre activitățile de CSR ale firmelor și performanța financiară a acestora. În acest sens, au fost selectate un total de 50 de companii listate la bursă în perioada 2015 – 2019. Informațiile financiare și cele referitoare la CSR au fost obținute din rapoartele anuale ale firmelor. Din punct de vedere metodologic, a fost aplicată o abordare aprofundată a analizei de conținut împreună cu metoda unei liste de verificare pentru măsurarea CSR, cuplată cu performanța financiară. Pachetul software statistic SPSS a fost utilizat pentru analiza datelor colectate. Rezultatul final al cercetării a evidențiat faptul că nu a existat o relație semnificativă între activitățile de CSR ale firmelor și performanța financiară a acestora în perioada analizată.

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