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Corporate Social Responsibility and Business Performance: Evidence From Malaysia Oil And Gas Companies

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ABSTRACT

This work aims to explore the relationship between Corporate Social Responsibility (CSR) and financial performance in the energy sector for publicly traded companies. Due to their size, environmental implications, and the operational risks associated with energy production, the energy sector has a unique role to play with worldwide CSR efforts. Earlier research on the relationship between CSR engagement and financial performance has been conducted in various contexts. However, the results of these investigations have been mixed, with some positive CSR-performance relationships, while in other studies, research is either non-existent or marginal. The question of research for this research thus addresses a considerable gap in understanding this topic in the contextualization of the energy sector through an analysis of the relationship between CSR and firm performance. A series of three financial parameters – asset return, equity return, and EBITDA – were the dependent variable. In this study, the population who are presently working in a company of the energy sector in Malaysia examines the sampling methodology. There is a total of 30 listed companies, which were in the "Energy" sector, based on Bursa Malaysia's official websites. For the subsection, two categories are included, namely: (1) Energy, Equipment, and Gas, and (2) Oil & Gas. The random selection will include two companies from each subcategory from the complete list. In detail, 100 respondents from each company will be selected randomly for the study.

Keyword: corporate social responsibility, ROA, ROE, EBITDA**.**

INTRODUCTION

After Friedman's (1970) shareholder view and Freeman's (1984) view of the firm's stakeholder, the literature debated CSR mainly on theoretical grounds (Cheffins, 2020). However, following a host of corporate scandals in the early 2000s (Laplume, Sonpar & Litz, 2008), the CSR topic became more widely covered in academic literature. Since then, the discussion has moved on to an empirical analysis of the impact of CSR on financial results and business social status (Lech, 2013; Jha & Cox, 2015). Specific country analysis, financial volatility, defense contractors, property manager, inventory management, corporate size, FDR, strategic management, competitive

pressure responsibilities and credit rates (Michra and Suar, 2010; Blome, 2012) were conducted for the empirical research of CSR in a variety of practicing contexts. Various studies have helped to understand the implications and implications of CSR in the energy markets. Greenland's dependence on foreign direct investment on hydrocarbon energy is explored in Wilson's 2016 report as a means of accessing the enormous capital needed for energy generation. Wilson found that the region is vulnerable to investors' appetite for risk and tends to withdraw from the market if investments have yielded no expected outcome. More research on the impacts of CSR on the energy industry is necessary because it presents so much to the global market infrastructures as unique challenges and obstacles to involving CSR in the exploration, collection, production, and distribution of energy.

LITERATURE REVIEW

It is possible to trace the history of CSR over the centuries. Over the years, there has emerged an awareness of the environmental impact of businesses and the nature and extent of CSR. This evolution of business and society has led companies to take greater responsibility for the welfare of society as well as its environment. The company's role in society has been changing, and descriptions are also suggested (Eberstadt 1977, cited in Colombo 2020).

In the 1950s, it became increasingly popular to recognize how an organization could define CSR as the overall responsibility and commitment to the community became more acknowledged. During that period, Howard Bowen published an important CSR book titled 'Businessman's Social Responsibilities, ' marking the beginning of CSR literature (Carroll 2008) cited in Virtanen (2020) and a period of changing attitudes towards a more responsible future with companies. In the 1970s, the idea that businesses should think of their actions over and above the pure profit resonate with those of business people of the era was the focus for more discussion of the issue. Chris defined them as "the obligations of businessmen to pursue policies and take such decisions or to follow the lines of action which are desirable as regards the objectives and values of our company" (Carroll, 2008).

The role of various CSR and performance stakeholders is increasing among politicians, industry, and academics in the late 1980s and 1990s, and social responsibility and theory of stakeholders have been more widely used in business discussions. This paradigm is changed to CSR with some empirical evidence that social reactivity has gained more considerable attention in the 1990s about its financial performance.

The relationship between corporate social responsibility and its financial performance by comparing literature in the 1970s and 1990s was also revealed in two studies by Griffin (1997) and Romans et al. (1999). Most research has shown that business performance with CSR involvement has a positive impact. Unfortunately, in their findings in the 2000s, the empirical results of studies on the financial impact of CSR continued to conflict. Although some investigators have positive CSR results (Hawn & Ioannou, 2014), other researches have also shown that the company's financial risks are related to the level of CSR (Bouslah, Kryzanowski & M'Zali, 2013), and companies involved in CSR initiatives are lower returns on their equity.

Later, a few indicators were introduced, such as EBITDA, ROA, and ROE, to support company performance. EBITDA is pre-interest, tax, depreciation, and amortization income. The standard

method to calculate the profit of a company is to calculate its net revenue. Gross income (every dollar the company earns) fewer expenses are defined merely as net income (every dollar that the company spends). Expenses are not only costs of raw materials, production costs, rental of office space, salaries for employees, and other tangible operating costs. When a firm borrows money, the interest on the loans must be paid.

Furthermore, the vast majority of companies pay taxes, and most enterprises apply accounting standards, such as depreciation and depreciation, to extend overtime the expense of gigantic tickets. What remains is a measure of a company's money-making ability, say supporters of EBITDA. Return on assets is a profitability ratio that provides a company with how much profit its assets can generate. In other words, the ROE measures how effective the management of a company is in generating profit from its economic resources or assets. ROA is shown as a percentage, and the more efficient the management is to manage its balance sheet for profit. The higher the number. Average total asset is used in calculating a ROA as the total assets of a company can vary with time by buying or selling cars, land or equipment, changing inventories, or fluctuating seasonal sales. Consequently, for the period in question, the calculation of the average total assets is more accurate than the total assets over a period. The Equity Rate (ER) shall be the amount of a company's net revenue generated as a percentage of its shareholder. Equity returns are useful for comparing profitable performance in the same industry for different companies. A high ROE is not merely an indication that a company can efficiently utilize its retained income.

Several researchers in Malaysia have argued that Malaysia is still in its infancy of CSR reports at a low level of CSR reporting among Malaysian firms. Despite several environmental and social problems that have evolved as a result of constant fast economic growth and the processes of globalization and urbanization in the country (Zainal et al., 2013). Because of several environmental challenges and corporate misconduct in Malaysia, it becomes more important to extend corporate accountability to all stakeholders and to act socially in all areas of business activity. The government has taken several initiatives to improve the development in Malaysia of CSR reporting. Zainal and his colleagues have carried out a study to identify differences between shariah and non-shariah on corporate social accountability reporting of large enterprises listed at the Malaysian Stock Exchange (KLSE) in the year 2013. Their study found that CSR engagement has increased since 2007 in the area's environment and community engagement. A further study by Yusoff and Yee (2014) of the top 100 listed companies in Bursa Malaysia found that the majority of companies that carried out CSR operations reported by them in the annual reports are connected with community, environment, workplace and market-related development. The authors found that, based on the word count analysis conducted in the CSR reporting, companies tend to promote activities more related to the community than to their workplace and environment, and less market focus.

Nevertheless, Malaysia must catch on as a developing country to become one of the advanced countries in 2020. It is, therefore, even more, important to take social responsibility for Malaysia's companies. In order to do this, the critical issues of CSR and the implementation/practices in Malaysia and how the organizations monitor their CSR process are essential. The aim of this study is, therefore, to study how CSR affects corporate performance, particularly in one sector.

RESEARCH METHODS

This is a quantitative study. In terms of objectives, this is an explanatory study. Looking into the sampling methodology, the population in this study is those employees who are currently working in an energy sector company in Malaysia. Based on Bursa Malaysia official websites, there are a total of 30 Listed Company which was under "Energy" sector. For a subcategory, there are two categories, namely (1) Energy Infrastructure, Equipment & Services Companies, and (2) Oil & Gas Producers Companies. Two companies from each subcategory will be selected randomly from the full list. In detail, one hundred respondents from each company will be randomly be selected to participate in this study. Since the researchers could not obtain the total employees from these companies, so by default, we set it as 20,000 as default number base suggested by Raosoft Sample Size Calculator. The result from Raosoft Sample Size Calculator suggested that 377 is the minimum sample size of this survey. (Margin error = 5%; confident level = 95%).The convenience sampling method was conducted among 400 employees. This study employed a self-administered questionnaire. Four hundred survey forms were distributed through the human resource department of the company due to the unavailability of the list of employees. Other than that, researchers can meet different employees with various backgrounds.

Instrumentation

Corporate Social Responsibility

This instrument was adopted by Carroll (1979). Ten items are measuring corporate social responsibility, using a five-point Likert-scale. As mentioned in previous chapters, corporate social responsibility comprised four major dimensions, which are economic, legal, philanthropic, and ethical. Hence, four out of ten items are for economic and legal responsibility, three items for philanthropic responsibility, and the rest are measured for ethical responsibility. According to Caroll (1979), all the components of the scale are in a positive statement. Each item has been evaluated as "Strongly Agree" or "Strongly Disagree." EBITDA stands for Earnings Before Interest, Taxes, Depreciation, and Amortization and is a metric used to evaluate a company's operating performance. It is a proxy for cash flow from the entire company's operations. The formula for calculating EBITDA: EBITDA = Net Income + Interest + Taxes + Depreciation + Amortization. A company's return on assets (ROA) is calculated as the ratio of its net income in each period to the total value of its assets. Return on Equity (ROE) is generally net income divided by equity, while Return on Assets (ROA) is net income divided by average assets. Return on Equity (ROE) is a measure of a company's net income divided by the value of its total shareholders' equity. All these three figuresare online available from Malaysia Stock Exchange official websites.

The total numbers of 400 respondent details are keyed into SPSS one by one, and then the individual data will be analyzed on a group basis. In this research paper, the statistic will include both descriptive and inferential statistics. This study employed the Pearson Moment Correlation test to examine the relationship between the variables.

FINDINGS

Respondents' Characteristics

Refer to the questionnaire, section A asked about personal information of the respondent, such as gender and subcategory. This study distributed 400 questionnaires, and after removing 20 invalid questionnaires, there were 380 valid questionnaires; the overall response rate was 95%. A total of the 380 respondents participated in this study. In this study, the number of the male respondent

s(180 people; 48%) is lower than female respondents(200 people; 52%). The majority of the respondents were from Oil and Gas Producers Companies.

Corporate Social Responsibility by Subcategory of Energy Sector and Gender

In regard to corporate social responsibility, there were significant differences found between gender and two out of three dimensions of corporate social responsibility, which are philanthropic and ethical responsibility, respectively. The findings of a significant difference between gender and corporate social responsibility were affirmed by the scholars Jia and Zhang (2012). They found that women are generally more socially responsible than men and engage more in philanthropic activities, such as charitable giving and community involvement. Besides, according to Marx (2000), women are more likely to desire updates than men on how their donations are being used because they view charity as a way of securing new relationships and a greater involvement in the community. Besides, there was a significant difference found between gender and philanthropic and ethical responsibility dimensions in corporate social responsibility, respectively ($t=2.377$; $t=2.066$, $p\leq0.05$). The mean score of philanthropic and ethical responsibility for females was higher than the male respondents. On the other hand, this study found out that there was no significant difference observed between gender and legal responsibility dimensions of corporate social responsibility. The results were consistent with Alonso-Almeida et al., (2014)'s finding, stated that the legal dimension to encourage a company towards regulation and legislation in a country has a low value in general to both men and women.

For subcategory differences, there were only significant findings where the employee who worked from Energy Infrastructure, Equipment & Services Companies relatively has a higher responsibility in Legal & Economic compared with oil and Gas employee ($t=2.527$; $p\leq0.05$).

Correlation between CSR and ROE, ROA and EBITDA

Spearmen Rho correlation is a measure of strength and significance of the association between two variables (George and Mallery, 2012). The strength of the relationship was indicated by the correlation coefficient: r, whereas the significance of the correlation between variables was presented in probability levels: p. Pearson correlation indicates the smaller the p-level (or p-value/ significance value), the more significant is the correlation between variables. The closer the correlation coefficient value is to 1, the stronger the correlation between the two variables (George and Mallery, 2012). The correlation coefficient can range from -1.0 to +1.0, with -1.0 indicating perfect negative correlation, +1.0 indicating perfect positive correlation and 0 indicating no correlation at all. This study employed Spearmen Rho because of the mixture of macro and microdata. Microdata refers to the perceived CSR score from the employees from energy sector companies. Macro data refers to the ROA, ROE, and EBITDA data. These three data will be computed as average (from the year 2015-2018) and treated as continuous data in this study. More specifically, there was a very significant correlation found between the three dimensions from the CSR variable, which is legal & economic responsibility, philanthropic responsibility, and Ethical Responsibility with ROA, ROE, and EBITDA.

Answering Main Research Objective

Main Research Objective

Is that the corporate social responsibility (Economic& Legal responsibility, Philanthropic Responsibility, and Ethical Responsibility) of an energy sector company can influence the company

performance (ROA, ROE, and EBITDA)?Based on the above results, there was a significant positive correlation of ROA with all the three dimensions in the corporate social responsibility variable. Among all, the strongest correlation within the framework is between Economic& Legal responsibility, with a correlation value of 0.453. In other words, Economic& Legal responsibility has the most substantial impact/ influence on the ROA. There was also a significant positive correlation of ROE with all the three dimensions in the corporate social responsibility variable. Among all, the strongest correlation within the framework is between Economic& Legal responsibility, with a correlation value of 0.348. In other words, Economic& Legal responsibility has the most substantial impact/ influence on the ROE. Similarly, EBITDA was correlated with all the three dimensions in corporate social responsibility variables. Among all, the strongest correlation within the framework is between Philanthropic Responsibility, with a correlation value of 0.466. In other words, Economic& Legal responsibility has the most substantial impact/ influence on the ROE.

The findings were consistent with previous studies such as Lee and Lee (2015) found that ethical responsibility is a relatively weak dimension compared with other CSR dimensions in China Mainland. The result was reaffirmed by scholars such as Lee and Shin (2009)'s finding in Korean, where corporate's philanthropic responsibility such as local community contribution while less influenced by corporate's ethical responsibility like environmental protection and contribution.

CONCLUSION & DISCUSSION

This research investigated the relationship between CSR efforts and financial performance metrics, namely ROA, ROE & EBITDA. The results demonstrated when examined by firm characteristics, some significant relationships were identified. There was a significant positive correlation of ROA with all the three dimensions in the corporate social responsibility variable. Among all, the strongest correlation within the framework is between Economic & Legal responsibility and has the strongest impact/ influence towards the ROA. There was also a significant positive correlation of ROE with all the three dimensions in corporate social responsibility variable with the strongest correlation within the framework being between Economic& Legal responsibility, which has the strongest impact/ influence towards the ROE.

Similarly, EBITDA was correlated with all the three dimensions in corporate social responsibility variables, with the strongest correlation between Philanthropic Responsibility has the strongest impact/ influence towards EBITDA.

In short, the goal of this research was partly achieved. Based on this conclusion, the findings need to be discussed in relation to managerial motivation, practical implications for management, the context of stakeholder theory, moderating variables, and areas for future research. This last chapter addresses these aspects of the research question.Because extant research showed mixed results on the correlation between CSR and financial performance, it was necessary to conduct additional investigations of the relationship between these variables. This study adds to the body of knowledge by contextualizing research in the global energy sector, and the conclusion can be drawn that a limited relationship exists within this specific industry.

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Figure 1: Research Framework

