CORPORATE SOCIAL RESPONSIBILITY – FIRM PERFORMANCE – CORPORATE SOCIAL RESPONSIBILITY LOOP: THE ROLE OF ASSURANCE, REPUTATION AND INDUSTRY TYPE

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by

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ACCA	Association of Chartered Certified Accountants
CSR	Corporate Social Responsibility
CB-SEM	Covariance-Based Structural Equation
FP	Financial Performance
FFP	Firm Financial Performance
GDP	Gross Domestic Product
GLC	Government -Linked Companies
GRI	Global Reporting Initiative
KPMG	Klynveld Peat Marwick Goerdeler (accounting firm)
MIA	Malaysian Institute of Accountants
MICPA	The Malaysian Institute of Certified Accountants
NACRA	National Annual Corporate Report Award
PLCs	Public Listed Companies
PLS	Partial Least Squares
PLS-SEM	Variance-Based Structural Equation
ROA	Return on Assets
RepTrak ™	Reputation Institute
SEM	Structural Equation Modeling
SC	Securities Commission
SME	Small and Medium Enterprise
SPSS	Statistical Package for Social Sciences

GELUNG TANGGUNGJAWAB SOSIAL KORPORAT - PRESTASI FIRMA – TANGGUNGJAWAB SOSIAL KORPORAT: PERANAN FAKTOR JAMINAN, REPUTASI DAN JENIS INDUSTRI

ABSTRAK

Kajian ini meneroka konsep gelung dalam amalan tanggungjawab sosial korporat (CSR) untuk tahun sebelumnya, prestasi kewangan firma untuk tahun semasa dan amalan CSR untuk tahun akan datang. Berdasarkan dua sumber teori, Teori *Pemegang Kepentingan*menjelaskan hubungan antara amalan CSR untuk tahun sebelum dengan prestasi kewangan firma untuk tahun semasa, manakala Teori *Sumber Bolehdapat*menjelaskan hubungan antara prestasi kewangan firma untuk tahun semasa dengan amalan CSR untuk tahun akan datang. Kajian ini menggunakan kaedah penyelidikan kuantitatif berasaskan analisis kandungan laporan tahunan firmauntuk tiga tahun iaitu tahun 2013 (tahun sebelumnya), 2014 (tahun semasa) dan 2015 (tahun akan datang). Sebanyak 200 buah firma yang tersenarai di Bursa Malaysia telah dipilih untuk kajian ini menggunakan teknik pensampelan rawak berstrata. Penganalisisan data dengan PLS-SEM menggunakan versi SmartPLS3.0 menilai model pengukuran dan model struktur. Dapatankajian menunjukkan bahawa amalan CSR untuk persekitaran, tempat pasaran dan komuniti berhubung secara signifikan dengan reputasi firma. Hubungan antara tempat pasaran dan komuniti dengan reputasi pula disederhanakan oleh jaminan pihak ketiga. Amalan CSR untuk tempat pasaran, tempat kerja dan komuniti pula berhubung secara signifikan dengan prestasi kewangan firma. Namun demikian, reputasi tidak mengantara sebarang hubungan antara amalan CSR dengan prestasi kewangan firma. Seterusnya pula, prestasikewangan semasa tidak memberi kesan signifikan terhadap pelaksanaan

amalan CSR pada tahun akan datang. Namun, analisis menggunakan nilai Pulangan atas Aset (ROA) menunjukkan bahawa kesan prestasi kewangan semasa adalah signifikan terhadap pendedahan tentang amalan CSR untuk persekitaran di tahun seterusnya. Dapatan juga mendapati bahawa kesan terhadap persekitaran ini adalah signifikan dalam industri yang sensitif di mana ROA yang tinggi menyebabkan kurangnya pendedahan tentang amalan persekitaran untuk tahun seterusnya. Kajian ini menunjukkan gelung lengkap CSR terhadap prestasi kewangan dan seterusnya kepada CSR akan datang tidak wujud. Justeru itu, kajian lanjut perlu dilaksanakan untuk menganalisis kesan dan kewujudan gelung untuk jangka kajian yang lebih panjang dan mempertimbangkan faktor-faktor lain dalam model tersebut.

CORPORATE SOCIAL RESPONSIBILITY – FIRM PERFORMANCE – CORPORATE SOCIAL RESPONSIBILITY LOOP: THE ROLE OF ASSURANCE, REPUTATION AND INDUSTRY TYPE

ABSTRACT

This study explores the loop concept of corporate social responsiblity practices (CSR) of the previous year, firm financial performance of the current year and CSR practice in subsequent year. Based on two sources of theory, the Stakeholder Theory explains the relationship between previous CSR practices with current firm financial performance while Slack Resources explains the relationship between current firm financial performance with future CSR practices. This study employed a quantitative research method based on content analysis of the firms' annual report for three years, 2013 (previous year), 2014 (current year) and 2015 (future year). A total of 200 firms listed in Bursa Malaysia was selected in this study using stratified random sampling technique. Data analysis was done with PLS-SEM using SmartPLS3.0 version to assess the measurement and structural models. Findings showed that previous CSR practices in environment, marketplace and community were significantly related to firm reputation. The relationships between marketplace and community with reputation were moderated by third-party assurance. CSR practices for marketplace, workplace and community were significantly related to firm financial performance. However, reputation did not mediate any of the relationships between CSR practices and financial firm performance. In addition, current firm financial performance did not have a significant effect on the disclosure of future CSR practices. Nevertheless, analysis using Return on Assets (ROA) indicated that the effect of current firm financial

performance is significant towards disclosure of future CSR practices in environment. Findings also showed that the effect on environment was significant in sensitive industry whereby higher ROA lessens the disclosure of future CSR environmental practices. This study also showed that the close loop of CSR on financial performance and leading to future CSR does not exist. Therefore, further studies need to be carried out to analyse the effect and existence of the close loop using a longer time frame and considering other factors in the model.

CHAPTER 1

INTRODUCTION

1.0   Chapter Overview

The overview of this study is given in this chapter. It includes a brief discussion of the background of the study, mainly describing Corporate Social Responsibility (CSR). Furthermore, this chapter sheds light on the theoretical gaps which were observed in previous researchstudies, which has created the need for this study to be conducted to explore the research problem. Next, the research objectives are explained and the research questions are introduced. In addition, the scope of the study is discussed and followed by explaining the significance of this study. Lastly, the organization of the remaining chapters of this thesis ends this chapter.

1.1   Background of the Study

The business of today is increasingly pressured not only to show but also to integrate their core financial operations with the inclusion of social and environmental concerns that provides advantages to the stakeholders (Amran, 2006; Pop, Dina & Martin, 2011) so that there is sustainability and true existence (Crowther, Abdaless, Qubrich, &Barzi, 2015). Corporate social responsibility (CSR) was regarded as an effort of the organization to provide benefits for its stakeholders. However, five decades ago, CSR was not seriously regarded by the business community and in fact was said to contradict investment functions (Lydenberg, 2005; Lee 2008; Whalen, 2013; Lu, Chau, Wang & Pan, 2014). Despite an initial controversial perspective, CSR is regarded with more interest by the millennial community particularly within the business world mainly because of the impact of globalization.

In brief, in recent decades, the top management regarded CSR as an action tool that determines success in the long run (Gray, Owen & Adams, 1996). It is the belief of many corporate organizations that successful CSR strategies result in organizational performance's success as its benefits not only contributed to the business firm but the society as well (Ditlev-Simonsen & Midttun, 2011; DiSegni, Huly, & Akron, 2015). Therefore, almost every major organization is engaged in CSR programs. To emphasise, 93% of the world's largest companies report on CSR formally (KPMG, 2013).

Nowadays, the question of "why should an organization get involved in CSR?" is less important but merits are given to the questions of "how to do it?" and "how does a firm contribute to the environment and the community?" (Ghotb, 2011; Esa & Mohd Ghazali, 2012). As a result, CSR has gained more awareness as an important element of a company's portfolio due to its significant impact on the organization's rapport with its stakeholders as closer relationships will surely gain greater financial performance (Waddock & Graves, 1997; Orlitzky, Schmidt, & Rynes, 2003; Scholtens, 2008; Nelling & Webb, 2009; Myung, McClaren & Li, 2012; Raza, Ilyas, Rauf & Omar, 2012; Abd- Mutalib, Jamil & Wan Hussin, 2014; Ahamed, Almsafir & Al-Smadi, 2014; Dian et al., 2014; Anas, Abdul Rashid, & Annuar, 2015; Jitaree, 2015; Saeidi, Sofian, Saeidi, Saeidi & Saaeidi, 2015; Yusoff & Adamu, 2016).

Previous studies show that CSR do have bearings on the organization's performance. Organization's performance provides resources for organization to implement better CSR practices (Preston & O'Bannon, 1997; Scholtens, 2008; Fauzi

& Idris, 2010; Surroca, Tribo, & Waddock, 2010; Ghelli, 2013). Waddock and Graves (1997), Orlitzky, Schmidt and Rynes (2003), Wissink (2012), and Dian, Made, Djumahir and Eko (2014), argue that CSR leads to an enhanced financial performance, and ensures that there areimproved future CSR practices. Overall, this implies thatCSR has a positive effect on the firm's financial performance (FFP), and in return, when the financial performance is improved, this will encourage more efforts to improve performance in CSR, thus making the process cyclical (Preston & O'Bannon 1997; Waddock & Graves, 1997; Orlitzky et al., 2003; MacGregor & Fontrodona, 2008; Fauzi & Idris, 2010; Palmer, 2012; Ahamadi, 2014). Thus, it is notablethat organization's performance has been argued to influence CSR practices.

In a nutshell, the two-way relationships or a 'virtuous circle' of CSR practices and firm's financial performance prompted the need for companies to continue making commitment to implement CSR (Waddock & Graves, 1997; Orlitzky et al., 2003; Nelling &Webb, 2009; Fauzi & Idris, 2010; Wissink, 2012; Ghelli, 2013; Ahmadi, 2014; Dian et al., 2014). As shown in Figure 1.1, CSR and profitability are involved in a two-way relationship whereby CSR efforts have an impact on profitability and vice versa (Jiao & Xie, 2013).

Figure 1.1: The Two-Way Relationship between CSR-Profitability

Source: Jiao & Xie (2013)

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In the light of the above discussion, a major gapis identified in the exploration of the process of how CSR influences and is influenced by the financial performance of the firm. Hence, it is the central focus of this study to explore that process by examining the CSR loop. Thus, thus study is inspired to introduce a coherent "looping" concept within the scope of CSR's strategies implementation. Obviously, the looping concept approach is increasingly necessary to demonstrates the loop cycle of CSR since CSR does not stop at organization's financial performance only but it is a cycle that continuously builds momentum to keep implementing CSR initiatives, to achieve continuous success of the businesses (Hohnen, 2007; Aras & Crowther, 2012; Amran & Ooi, 2014). Such an approach isregarded as a process of an evaluation to see whether CSR loop is on course and working well, what and how to ensure that CSR practices continue to do so, re-evaluate original CSR practices by considering influential factors and finally to implement it, if necessary (Hohnen, 2007; Hugos, 2012).

Therefore, the looping concept in this study means a cycle that requires a company to fully understand the differences between practice (what is required?), and outcome (what actually happened?), with an intention to close any gaps, which means directing good investment aimed at minimising the waste of scarce financial resources (Nivarthi, Quazi, Saleh & Tucker, 2015), eventually leading to a system of continuous improvement. Fundamentally, it is important for a company to understand a situation or process before it can be improved upon. So, the process is continually repeated until a certain condition is reached, then return to the beginning to start the next cycle. Hence, the loop cycle in current study captures two important rotations for CSR; (1) from practice to outcome (CSR practices to firm's financial performance);

and (2) from outcome to practice (Firm's financial performance to CSR practices). It is obvious that within the looping concept, CSR and firm financial performance (FFP) are significantly associated to demonstrate the process of implementation, evaluation and improvement of CSR practices (Quazi & Richardson, 2012).

From a strategic view point, Amran, Zain, Sulaiman, Sarker an Ooi (2013) explained that business can only prosper when the effectiveness of looping concept is measured because CSR is considered as a resource and the loop cycle of CSR is about how a firm manages the resources it needs. In this context, the looping concept is a cycle that builds momentum through persistent steps forward in alignment with firm's CSR strategy. Indeed, firms can also re-examine their pattern of evaluation for CSR practices and begin their journey toward a looping concept approach that should be integrated into their CSR strategies towards giving greater social support and sustainable development of the economy (Nejati, Quazi, Amran & Yahya, 2015).

In this respect, therefore, this study first offers empirical evidence and then systematically develops a means of investigating CSR loopto encourage CSR practices by understanding more about the looping concept. This effort introduces the novice about the existing implementation guide of CSR strategytohelp 'laggard' organisations to become 'leaders' in the business environment. This is becausethe loop cycle of CSR is concerned with the balance between CSR performance and firm's financial performance, which means, economically viable, socially responsibleand environmentally friendly (Mares, 2008; Fauzi, Svensson & Rahman, 2010; Yang & Crowther, 2012; Jiao & Xie, 2013; Ahamed et al., 2014).

As such, an investigation of how CSR loop plays an influential role in continuous monitoring, checking, or observance of CSR practices to be maintained so as meet the expectations of the various stakeholders, eventually help to achieve sustainable development agenda (Fauzi & Idris, 2009; Robins, 2011; Flammer, 2013; Jitaree, 2015).

1.2   Problem Statement

CSR is mainly regarded as a mechanism that alleviates risks by means of developing strong relationships with various stakeholders so that there is an assured access to the firm's resources (McWilliams & Siegel, 2001; Robins, 2011; Mwangi& Jerotich, 2013). Thus, the prime motivation of the companies to implement CSR strategies is profitability (Hawkins, 2006; Almsafir, 2014). Accordingly, Milton Friedman (1970) argued that company's first and sole motive is to increase its profits by executing CSR programs. For this reason, in the last 40 years, many empirical studies and researches were carried outto assess the relationship of CSR with financial performance (Ehsan & Kaleem, 2012; Amran, et al., 2013; Ahamed et al., 2014; Crowther, et al., 2015; Hirigoyen& Poulain-Rehm, 2015).

However, past studies have showed that there exists a two-way relationship between CSR and financial performance (Orlitzky et al., 2003; Waddock & Graves, 1997; Surroca et al, 2010; Palmer, 2012; Wissink, 2012; Ghelli, 2013; Jiao & Xie, 2013; Dian et al., 2014). In fact, CSR literature mainly focused on the association between CSR and financial performanceto prove whether these variables are positively, negatively or neutrally correlated, but overlook those influential factors that are perceived as key players that could explain the relationship between CSR and

financial performance in both directions (Ullman, 1985; Fauzi, 2009; Peloza, 2009; Surroca et al., 2010; Robins, 2011; Aguinis & Glavas, 2012; Ghelli, 2013; Peng & Yang, 2014; Hirigoyen & Rehm, 2015).

The arguments on the relationship between CSR and the financial performance in the last four decades has yet to come to any concrete conclusions (Ramchander, Schwebach & Staking, 2012; Mwangi & Jerotich, 2013; Ahmad, et al., 2014; Alshammari, 2015; Hirigoyen & Rehm, 2015). This warrant for further research which may be explained by the CSR loop concept (Peloza, 2009; Quazi & Richardson, 2012; Wissink, 2012; Ghelli, 2013; Alshammari, 2015; Hirigoyen & Rehm, 2015).

Thus, the main problem is; how CSR influence and is influenced by the organization's financial performance is not clearly defined and then left as an unsolved issue (Preston & O'Bannon, 1994; Waddock & Graves, 1997; Margolis & Walsh, 2003; Aras, Aybars, & Kutlu, 2010; Quazi & Richardson, 2012; Ghelli, 2013; Flamer, 2013; Alshammari, 2015), even though numerous empirical studies and researches have been conducted (Wissink, 2012; Ghelli, 2013). In a statistical manner, correlation does not imply causation rule, which means the evidence of correlation between CSR and financial performance has no relationship to causality (McGuire et al., 1988; Scholtens, 2008; Edmans, 2012; Sun, 2012). As of fact, researchers who investigated this relationship have denoted that the mixed findings as a result of variety in the methodologies, approaches and variables used in these studies (Simpson & Kohers, 2002; Peloza, 2009; Girerd-Potin et al., 2013). In this regard, some researchers believed that some influential factors were responsible to

influence the relationship and these should be considered in research (Brammer & Millington, 2008; Peloza, 2009; Surroca et al, 2010; Aguinis & Glavas, 2012; Peng & Yang, 2014; Alshammari, 2015). The reality is that the cause and effect can be indirect, due to a third factor (Aguinis & Glavas, 2012; Jiao & Xie, 2013; Nivarthi et al., 2015).

As the above issue is astute to successful CSR agendas by businesses, thus, it is significant and necessary for the current study to investigate the loop through the looping concept approach because findings from prior studies concluded that CSR practices influence firm's financial performance (Freeman, 1984; Ullman, 1985; McGuire *et al*., 1988; Donaldson & Preston 1995; Simpson & Kohers, 2002; Karagiorgos, 2010; Amira, 2013; Jitaree, 2015), and the greater their financial performance, the greater their ability to be socially responsible (Cornell & Shapiro 1987; Donaldson & Preston 1995; Mitchell, Agle & Wood, 1997; Scholtens, 2008; Palmer, 2012; Ahmadi, 2014). However, the interplay of these relationships is not definite as the questions of external factors, which may act to mediate, or moderate these relationships may be present. Hence, in this study, three factors are identified: third party assurance, firm reputation and industrial sensitivity.

This study attempts to fill the existing gaps in research by assessing the mediating and moderating processes that could be present in the CSR loop. Such that, the current study therefore, sought to answer few essential questions that follows which are: Does CSR practices have any effect on the firm's reputation? Does third party assurance play a role in explaining this relationship? Does firm reputation influence how CSR practices are related to firm's financial performance?

Does industrial sensitivity influence the association between firm's financial performance and its investment in CSR initiatives?

The above argument provides the foundation for the current study to investigate CSR loop because the firm's CSR practices contribute significant benefits to the firm and its stakeholders (Galbreath, 2009), whereby such positive returns are influenced by the most influential factors (Gyves & O'Higgins, 2008; Taha, 2013).In this regard, it can be argued that reputation will play an essential role to ensure that CSR will positively impact the firm's financial reputation and provide the mechanisms through which firms may use these economic benefits. This is because CSR will push firms to perform better as demanded by the stakeholders' expectation, as well as, enhance relations with them, and by doing so, CSR is perceived as a prominent way for a firm to create reputational effect in terms of improved and sustained reputation (Jones & Wicks, 1999; Eberl & Schwaiger, 2005; Innoue & Lee, 2011; Beheshtifar & Korouki, 2013; Alshammari, 2015).

The CSR activities benefit the firm by giving it a good reputation among its main stakeholders because firm's reputation is arguably a positive influence on its financial performance (Jones & Wicks, 1999; Branco & Rodrigues, 2006). Consistent with this argument, recent studies have indicated that CSR engagement and activities also provides benefits to the firm particularly in developing good relationship with its stakeholder and this in turn, improves the firm's reputation and subsequently creates a positive impact as seen in its profitability (Dickinson-Delaporte, Beverland, & Lindgreen, 2010; Othman, 2012; Sur & Sirsly, 2013; Hond, Rehbein, Bakker, & Lankveld, 2014).

This is consistent with stakeholder theory approach, which argued that CSR report is positively related to firm's reputation since firm fulfil the interests of a broad group of stakeholders by investing in wide range of CSR, consequently leading to a better financial performancein subsequent years (Turban & Greening, 1997;Hooghiemstra, 2000; Margolis et al. 2007;Freeman 2010; Arendt & Sebastian, 2010; Hull & Tang, 2012; Beheshtifar & Korouki, 2013; Razak & Musrapha, 2013; Saeidi, et al.,2015; Sur & Sirsly, 2013).

Assurance is an important element to get stakeholders' trust, which means in order to produce good CSR report; independent parties' opinion is important. Reports that assured externally provides detail overview about economic, environmental and social impacts to stakeholders as a means for an accurate and holistic assessment of the company's performance (O'Dwyer & Owen, 2005; Bursa Malaysia 2006; 2011; Owen, 2007; GRI, 2013; KPMG, 2005, 2011). This argument is in line with findings from prior studies which have discovered that third party assurance statements was successful in improving the accuracy and completeness of CSR reports as well as its credibility which consequently lead to a strong reputation for the company overall (Deegan, Cooper, & Shelly, 2006; Gillet, 2012; Hickman & Wong-On-Wing, 2015).

An analysis by PricewaterhouseCoopers (2011), discovered that it is the practice of more than 75% of companies to obtain external assurance on their CSR report for credibility purpose as a means of assuring confidence in the CSR report. Therefore, another critical element of the corporate reporting function is third party assurance as it increases the credibility of the report and with greater credibility, this assures the stakeholders' trust on the managerial disclosure as well as able to

influence the stakeholders' view towards companies' overall reputation (Bursa Malaysia, 2006; Owen, 2007; 2011; Vanstraelen & Chua, 2009; Cohen & Simnett, 2014; Janggu et al., 2013; Cohen & Simnett, 2014; Casey & Grenier, 2015).

On the other hand, with regards to the impact of industrial sensitivity toward firm's investment in CSR initiatives, stakeholders of higher financial returns' companies operating in sensitive industries, which have a negative effect on the physical environment are more likely to be interested in CSR and therefore are more inclined towards implementation of CSR activities (Tilt & Symes, 1999; Tilling, 2004; Flammer, 2013). Accordingly, Jenkins & Yakovleva (2006) and Reverte (2012) have discovered that for sensitive industries, there is a stronger relationship between financial performance and its CSR practices. This implies that good financial performance firms' lead to higher commitment to invest more in CSR if their nature of the business relates to high environmental and social impacts (Quazi & Richardson, 2012; Flammer, 2013; Lu et al., 2014; Chen et al, 2015).

Hence, sensitive industries are more committed to report about how they manage CSR activities, thus discloses information about CSR more than non-sensitive industries (Deegan & Gordon, 1996; Business Impact, 2000; Brammer & Pavelin, 2006; Amato & Amato, 2007; Dkhili& Ansi, 2012; Iqbal, Ahmad, Basheer, & Nadeem, 2012). This fact supports the argument that the level of CSR practices and reporting undertaken is influenced by the type of industry that a firm operates in. Thus, the role of industrial sensitivity within the CSR-financial performance loop could reveal key priorities of CSR initiatives based on the nature of the industry (Wood, 1991; Brammer & Pavelin, 2006; Kang, Lee & Huh, 2010; Khasharmeh &

Desoky, 2013) and, hence, is expected to help the firms to invest and engage in more significant CSR initiatives that are socially desirable (Hassan, Yusoff & Yatim, 2012; Amran et al. 2013; Abd- Mutalib et al.,2014; DiSegni et al., 2015).

In support with the argumentsabove, thus, it is noteworthy to discuss the reasoning behind this, by investigating CSR loop, as an attempt to identify the influence of mediating and moderating variables that play vital role to explain of how does CSR and financial performance are connected in both directions. This is because whether the loop cycle of CSR is a virtuous or a vicious cycle is determined by the effect of the mediating and moderating resources on the cycle (Waddock & Graves, 1997; Orlitzky et al., 2003; MacGregor & Fontrodona 2008; Vilanova et al. 2009; Wissink, 2012; Jiao& Xie, 2013; Hirigoyen & Rehm, 2015).

As such, firstly, this study predicts that reputation mediates the relationship between CSR and financial performance as it has been shown that CSR is able to stabilize the firm's financial performance through its ability of enhancing corporate reputation (Preston & O'Bannon, 1994; Carter, 2005; Guidery & Pattern, 2010; Othman, 2012; Beheshtifar & Korouki, 2013; Ahamed et al., 2014). Furthermore, this study predicts the moderating role of third party assurance on CSR's relationship with reputationsince third party assurance statement in CSR report is an important mechanism of providing a greater sense of confidence in disclosures to enhance firm's credibility and transparency to a wide range of stakeholders (Medley, 1997; Owen & O'Dwyer, 2004; Owen, 2007; Kolk & Perego, 2008; Jones & Solomon, 2010; Gillet, 2012; Janggu et al., 2013). On the contrary, this study predicts the moderating role of industry type on the relationship between firm's performance with

CSR, since the sensitive the industry is, the greater the commitment of the industry in the CSR investment (Johnson & Greening, 1999; Brammer & Millington, 2006; Gilbert, 2008; Dkhili& Ansi, 2012; Iqbal, Ahmad, Basheer, & Nadeem, 2012).

Finally, to capture completely the nature of CSR and financial performance relationship in both directions, as well as, to produce more conclusive findings, the current study explicitly theorizes a route to investigate CSR loop, as depicted in Figure 1.2, in order to explore the process of CSR's influence on FFP and vice versa bytaking consideration of mediating and moderating variables that have been identified in above discussion. Therefore, this study aims to examine whether such variables positively influence the relationship between prior CSR practices - financial performance - subsequent CSR practices, to give a clear understanding about the real nature of such relationship and therefore more compelling.
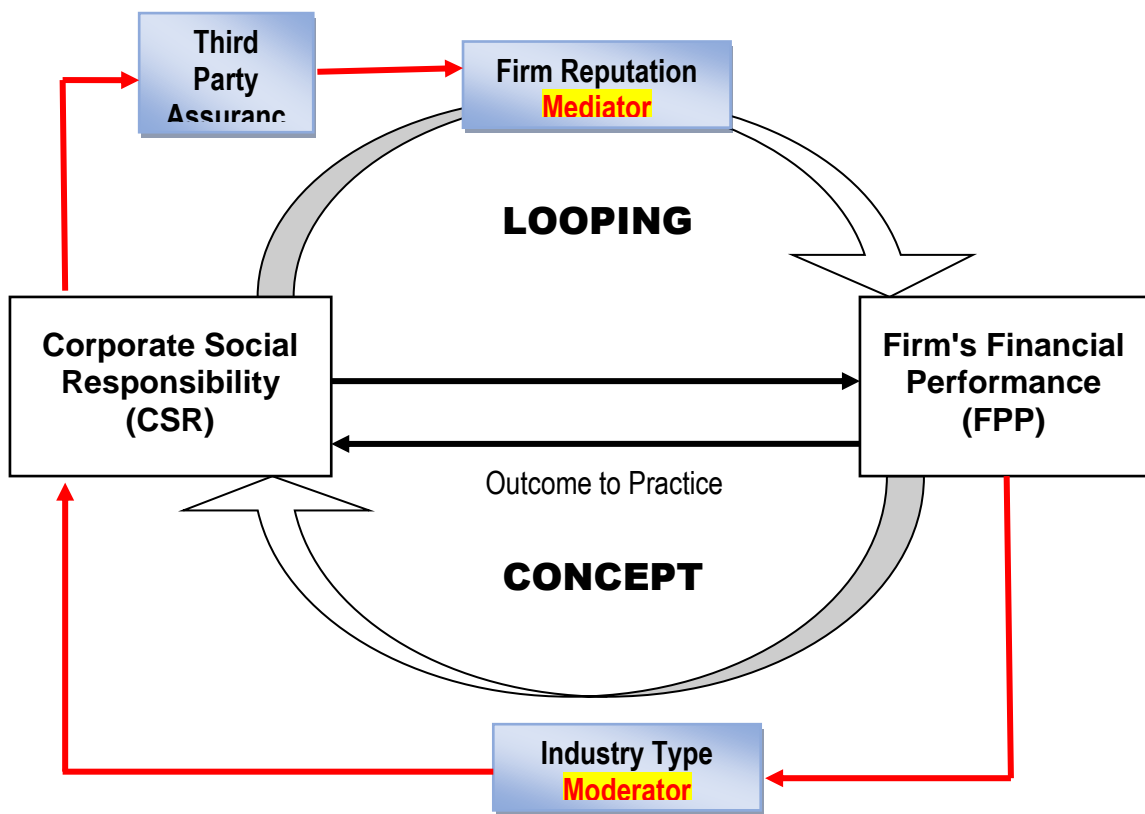
Figure 1.2: The Looping Concept Approach of CSR and Firm Financial Performance with influences from moderating and mediation variables

Source: Developed for this study based on theliterature review (Waddock & Graves1997; Orlitzky, Schmidt & Rynes, 2003; Fauzi & Idris, 2010; Surroca et al, 2010; Wissink, 2012; Jiao & Xie, 201; Ahmadi, 2014; Dian, Made, Djumahir & Eko, 2014)

Note: Boxes in blue are added to the Looping Concept of CSR-FFP-CSR

Hence, given the above situation, Malaysia seems to be of particular interest to investigate CSR loop, as to postulate the outcomes on the social support and the nation for the economic development of the society, more specifically in the Malaysian context of Public Listed Companies (PLCs). This is becauseCSR is becoming an increasingly prominent concept in Malaysia (Haron, Sofri, Chambers, Manasseh, &Ismail, 2004; Zulkifli & Amran, 2006; Azlan & Susela, 2008; Saleh, Zulkifli, &Muhamad, 2011; Esa & Mohd Ghazali, 2012; Abd -Mutalib, et. al, 2014;

Ahamed et al, 2014; Waworuntu, Wantah & Rusmanto, 2014; Anas et al., 2015; Yusoff & Adamu, 2016),and more importantly, mandatorythat all PLCs shouldinclude CSR practices report in their annual report (Abdullah, 2006; Ting& Yeung, 2007). This implies that CSR starts to be as a part of financial disclosure in Malaysia since 2006. Therefore, the results of this studyserve asan action plan tool with useful starting points for Malaysian PLCs to drive continuous improvement on their CSR efforts in order to work based on long-term bilateral benefits relationship between PLCs and Malaysian community.

Moreover, theSecurities Commission Malaysia (SC) has announced that the capital market in Malaysia in 2014 has increased to RM2.76 trillion which is 2.6 times the size of the country's economy, and continued to be resilient despite global uncertainties (Star, 2015). Thus, it is important to note that the capital market will be central to establishing the economic incentives that drive companies towards best CSR practices. This on account that CSR provide investors with a good indication of sound management (Bursa Malaysia, 2014).

However, Malaysian PLCs' lack of knowledge and awareness about CSR had resulted in falling way behind world's best CSR practices that engagement in CSR is still a debatable issue in this country (Amira, 2013; Ahamad et al., 2014). Consequently, many organisations in Malaysia are still unsure, or unaware about the advantages and benefits that CSR holds for organisations (Amira, 2013; Amran et al., 2013; Ahamed at al., 2014; Nasir et al., 2015). This is consistent with a recent study by Waworuntu, Wantah & Rusmonto (2014), who have indicated that Malaysia

provides a weak contribution towards explaining the correlation between CSR and FFP of top listed companies in the ASEAN region.

Rationally, the theoretical knowledge of CSR must be accompanied with a practical approach in managing activities pertaining to CSR (Jamilah &Suriati, 2011). As such, Malaysian government and the Security Commissions need to execute more actions, efforts and regulations to enhance the CSR performance, since the good image displayed through CSR disclosures by Malaysian PLCs could attract the investors to invest in their company, thus improve their business performance towards high-income economy at the market place, and remain competitive as well for both local and foreign investors (Boesso, Lo & Yap, 2011; Othman, 2012; Kumar & Michelon, 2013;Abd- Mutalib, et al., 2014; Waworuntu, Wantah & Rusmanto, 2014; Nasir, Halim, Sallem, Jasni & Aziz, 2015).

This study would benefit from input of intangible factor, reputation, as prior studies have provided strong evidence that adopting CSR business approach can enhance the company's reputation, and in turn lead to better long run financial performance (Turban & Greening, 1997; Hooghiemstra, 2000; Margolis et al. 2007; Othman, 2012; Sur & Sirsly, 2013). In addition, third party assurance statement in CSR report has also been proposed to affect the extent to which CSR and reputation are related. Owen (2007) asserted that assurance is an important contributor to the companies' reputation as it enhances the investors' confident to invest in the company. Furthermore, industry type where the firm operates may affect CSR practices(Gilbert, 2008) because there are differences in the social and environmental aspects of the industry (Griffin &Mahon, 1997; Brammer & Pavelin, 2006; Amato

&Amato, 2007).Such that, sensitive industries that have strong financial resources tend to invest more in the social responsibility domain compare to non-sensitive industries (Revert, 2012; Amran et al. 2013; Khasharmeh & Desoky, 2013).

Indeed, there is limited evidence to adequately explain such a relation, particularly in Malaysian context, as most of the studies in Malaysia widely focused on the CSR disclosure, and less on awareness about CSR loop(Aras, et al., 2010; Saleh, et al., 2011; Esa & Mohd Ghazali, 2012; Zainal, Zulkifli & Salleh, 2013; Ahamed,et al., 2014;Nasir, Halim, Sallem, Jasni & Aziz, 2015), thus the fundamental problem in Malaysian PLCs,seems to be a lacking in their effort and commitment to practice CSR (Dusuki & Tengku Mohd Yusof, 2008; Roshima, Yuserrie & Hasnah, 2009; Ghotb, 2011; Othman, 2012; Zainal et al., 2013; Amira, 2013; Amran, et al., 2013; Ahamed, et al., 2014).

Hence, this study therefore, aims to answer the question *"Do good CSR practices by means of third party assurance, generate a good reputation? and subsequently enhances firm's financial performance? and in its turn, leads to an improvement in CSR practices?"*Thus, by filling the gaps in existing research, current study is a significant effort to investigate CSR loop, the relationship between prior CSR practices - financial performance - subsequent CSR practices, through looping concept approach. Therefore, the central focus of this study is to justify the role of third party assurance, firm reputation and industry type in implementing CSR efficiently as part of the business strategy, which in the end is expected to enhance firm's commitment towards an economic, social and environmental operation, and at

the same time keeping the interests of the stakeholder in equilibrium, in line with the social and economic aspirations of the country.

1.3 Research Questions

The followings are research questions that were answered in the due course of this study:

1. What is the relationship between previous CSR practices and current firm's reputation?
2. Does previous third-party assurance moderate the relationship between previous CSR practices and current firm's reputation?
3. What is the relationship between previous CSR practices and current firm financial performance?
4. Does current firm reputation mediate the relationship between previous CSR practices and current firm financial performance?
5. What is the relationship between current firm financial performance and future CSR practices?
6. Does current industry type moderate the relationship between current firm financial performance and future CSR practices?

1.4 Research Objectives

The followings are research objectives that were fulfilled in the due course of this study:

1. To investigate the relationship between previous CSR practices and current firm's reputation;
2. To examine the moderating effect of previous third-party assurance on the relationship between previous CSR practices and current firm's reputation;
3. To investigate the relationship between previous CSR practices and current firm financial performance;
4. To examine the mediating effect of current firm reputation on the relationship between previous CSR practices and current firm financial performance;

5.   To investigate the relationship between current firm financial performance and future CSR practices; and

6.   To examine the moderating effect of current industry type on the relationship between current firm financial performance and future CSR practices.

1.5   Scope of the Study

This study focuses on the investigation of the CSR-FFP loop, whether good CSR practices by means of third party assurance, generate a good reputation, and in turn enhances firm financial performance and leads to CSR practices improvement. Firstly, the selection of variables was based on the past literatures and theories supporting this study. There could be other variables that could influence the outcome of the study. Hence, the key areas of investigation are data on ROA and Tobin's Q (firm's financial performance), CSR practices and disclosures (among four CSR dimensions), firm reputation disclosure, third party assurance statement and firm's characteristics (industry type).

Secondly, the population of this study comprises of Malaysian PLCs from all sectors of the economy and listed in the main board of Bursa Malaysia. Data for this study were taken from the annual reports for the year ended 2012 until 2014.Hence, this study adopted a content analysis method that identified and described patterns of CSR and firm's financial performance in annual reports, the primary source of corporate environmental reporting that are conveniently available every year for stakeholders and offer an opportunity for a comparative analysis of management CSR performance across reporting periods (Haniffa & Cooke, 2005; Mohd Ghazali, 2007; Said et al., 2009; Esa & Mohd Ghazali, 2012; Ahamed et al., 2014). Moreover, in Malaysia (Appendix 9c, Part A (29), Bursa Saham, 2008), the mandatory

requirement basically was meant for disclosure in the annual report and not all companies in Malaysia produce CSR stand-alone reports and internet reporting.

Thirdly, there were two-type of research instruments adopted to measure the firm's performance, as well as, corporate reputation. However, this study only focused on the instruments that are considered to be the most suitable and in consistent with the objective of this study. Therefore, for this study, two types of disclosure checklist have been chosen to retrieve the required information in this study, namely; (1) CSR Disclosure Checklist and (2) Reputation Disclosure Checklist.

1.6   Significance of the Study

CSR represents the new challenge for business corporations. Most companies realized that CSR practices implementation in the business process is important. Business activities should be carried out with a caution towards minimization of social and environmental costs and impacts, yet at the same time assures that financial costs are maintained. Therefore, the primary objectives of firms are to benefit itself and the society, as well as reducing the negative impacts on the social and environmental aspects. Nonetheless, it is apparent that firms are very slow to translate CSR at the corporate level into noticeable sustainable actions. Therefore, more actions from PLCs are required to encourage greater CSR practices in developing countries that this study plays a crucial role in giving significant contributions, theoretically, practically and methodologically.

1.6.1 Theoretical Contributions

The theoretical contributions of this study can be explained from five angles of discussion as elaborated below.

Firstly, this study contributes significantly to explicitly theorize the path through which firm's financial performance is related to CSR. This study provides a holistic view about the relationship between prior CSR practices - financial performance - subsequent CSR practices. Therefore, this study enhances moreunderstanding on why CSR is considered to have strategic valuesto thefirms, by addressing two theories, stakeholder and slack resource theory,that can be used in such endeavour. By considering these relationships, researchers in the field can build understanding and uncover the variables and processes that lead to these causality relationships. This implies that CSR and FFP are inter-related in a way, called a "virtuous circle", referring to a looping concept, and where that cycle begins, when a firm establishes that its financial, environmental and social responsibilities are balanced to ensure mutual benefit with the stakeholdersand remain sustainable.

Secondly, it is noted that CSR initiatives is regarded as a public relations strategy especially within the market environment where there arestrong social concerns among the stakeholders.Therefore, findings on how CSR disclosure that have been assured by third party, which in turn influences on reputation and performance of the firm may improve management's understanding of why CSR matters. To managers, this means that enhancing the credibility of CSR reports and building a positive reputation are significant intermediate steps in converting CSR into financial gains which could established themselves at the forefront.

Thirdly, endeavours to embrace mediating effects between various CSR dimensions and firm financial performance were undertaken because it was proven by empirical evidence that CSR improves a firm's reputation, consequently leading to a better financial performance. In fact, in this study, reputation concentrates on main attributes of corporate reputation, which related to CSR elements, due to the fact that CSR is a top predictor of a company's reputation. Hence, this study would contribute more value, theoretically and empirically as an effort to fill some of these research gaps in the CSR and financial performance literatures in Malaysia.

Fourthly, industry type has been identified as a potential factor that can affect CSR practices. Therefore, the impact of their business operations on CSR actions and the stakeholders' expectations consider the focus of business sustainability. Therefore, this study provides valuable information to the industrial players such as the management team, shareholders, investors and government bodies as well as public. In this regard, whether an industry is sensitive or non-sensitive could affect political visibility and sways the extent of disclosures as to minimize societal pressure and criticism. In fact, this study also enables them to identify the important CSR dimensions, in which they should invest and the aspects where improvement needs to be made because each CSR dimension had a differential impact on firm's financial performance and that such impact varied across the sectors. Furthermore, as CSR are dependent on the type of the industry, this study helps them to determine minimum standards for of PLCs' compliance in CSR to ensure both short and long-term financial performance improvement, as anticipated by all listed companies. In short, the examination of the inter-play of variables in this study provides a better

understanding that could enrich the theoretical framework that relates these variables together that leads to benefits from practical viewpoints.

1.6.2   Practical Significance

The practical significance of this study is discussed from four aspects that include benefits to the business corporations, particularly the PLCs in Malaysia, government and Security Commissions, communities, and the research and education field.

Based on more information and knowledge about the CSR loop, firms can develop new CSR perspectives on their business model and have greater concerns on the impact of their operations on the community and environment. This may initiate an exhaustive review of their existing policies and business frameworks which is more visionary with CSR as a central focus in their business strategies and an integral part of their sustainable developmental long-term plan. Their emphasis would be on assuring long-term profitability based on sustainable business operations rather than being satisfied with profits gained in shorter term basis. Therefore, in proper business operation, one of the responsibilities is taking care of the community and the environment. Businesses will take economic, social and environmental responsibilities seriously. The looping concept of CSR becomes the basis for a more proactive approach to CSR by companies to foster business sustainability as it precisely helps to determine the effectiveness of CSR practices on economic, social and environment.

Firstly, the result of this study can significantly contribute towards the government and the Security Commissions to encourage greater practice of CSR

activities disclosure in all PLCs annual reports not just because it is a mandatory requirement but out of awareness of its benefits. Hence, this study is beneficial to them to formulate strategic CSR plans in order to maximize the benefit derived from CSR investment, thus enriching more values to the current practice of CSR framework by PLCs in Malaysia. Secondly, relationship with PLCs becomes closer and strategic, and this might help them build on-going relationship in the CSR investment decision making process, therefore become more responsible on global issues.

Besides that, as an integral and significant part of business operations, investments in CSR activities would certainly benefit the business corporation and the community. Therefore, this study also highlights that CSR activities carried out by PLCs provide positive impact to the communities. For instance, these companies provide assurance on the safety, health and quality of their products and goods, thus the community enjoy these perks due to CSR practices.Additionally, CSR encourages pro-community investment projects in health, safety, education, sport and other programmes as the main agenda of every business corporation which surely would bring positive outcomes to the communities.

In addition, this study is beneficial to accounting and business researchers to extend the knowledge and understanding about the CSR loop, thus there is a great demand to find indications of where future research can aim at in this field. The result of this study contributes significant information to the future researchers about how a business should embrace CSR which in the end lead to enhance the financial