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**STUDY ON CORPORATE SOCIAL RESPONSIBILITY  
DISCLOSURE'S INFLUENCE ON COMPANY'S  
PROFITABILITY IN MALAYSIA**



A thesis submitted to  
School of Economics, Finance and Banking  
UNIVERSITI UTARA MALAYSIA  
In Partial Fulfillment of the Requirement for the  
Master of Science (Finance)



**Pusat Pengajian Ekonomi,  
Kewangan dan Perbankan**

SCHOOL OF ECONOMICS, FINANCE, AND BANKING

**Universiti Utara Malaysia**

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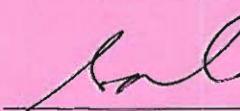
**STUDY ON CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE'S INFLUENCE ON  
COMPANY'S PROFITABILITY IN MALAYSIA**

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## ABSTRACT

The purpose of this study is to investigate the relationship between Corporate Social Responsibility (CSR) as disclosed in the financial report of public listed companies in Malaysia and corporate financial performance which is represented by return on equity (ROE). A sample of 130 company's annual reports were analyzed to represent a sample data on CSR disclosure index and ROE for the period of study between 2007 and 2009. In addition, this study also adopted the debt ratio to act as a controlled variable. Finding of this study reveal the CSR as well as the debt ratio have significant and negative relationships with the ROE. The negative impact of the CSR on the ROE does not really support the stakeholder theory as what this study has hypothesized in the beginning. Nevertheless, these results may be affected by the costs of the CSR activities which could have caused an increase in companies' expenses, hence reducing companies' profit.

**Keywords:** Corporate Social Responsibility, ROE, public listed companies

## ABSTRAK

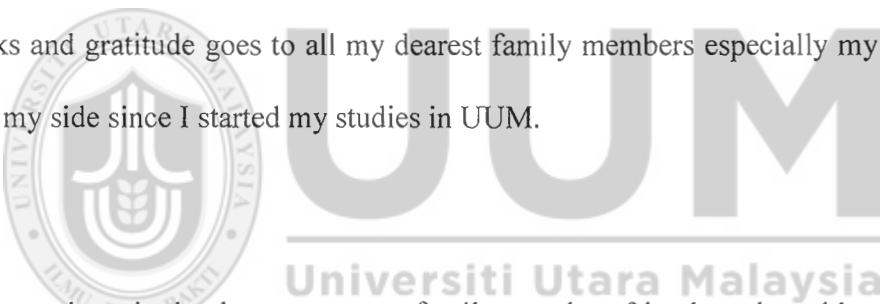
Objektif utama kajian ini adalah untuk mengkaji hubungan diantara pelaporan tanggungjawab sosial korporat di dalam laporan kewangan tahunan syarikat dengan prestasi kewangan syarikat yang diukur dengan menggunakan nisbah pulangan keatas ekuiti syarikat. Laporan kewangan tahunan daripada 130 syarikat yang disenaraikan oleh Bursa Saham Malaysia telah diambil sebagai sample dan dianalisa, data tersebut menggunakan Indeks Tanggungan Sosial Korporat dan nisbah pulangan keatas ekuiti yang merangkumi data dari tahun 2007 hingga 2009. Sebagai tambahan, kajian ini telah menggunakan nisbah hutang sebagai pembolehubah terkawal. Hasil kajian ini menunjukkan tanggungan social korporat dan nisbah hutang mempunyai hubungan yang ketara tetapi negatif dengan nisbah pulangan ekuiti. Impak negatif diantara tanggungan social korporat dengan nisbah keatas ekuiti ini tidak menyokong *stakeholder's theory* seperti yang di hipotesiskan. Kemungkinan, keputusan kajian ini ada implikasi daripada kos yang terbit daripada aktiviti tanggungan sosial korporat yang mungkin meningkatkan perbelanjaan syarikat, dan secara tidak langsung memberikan kesan kepada kadar keuntungan syarikat.

**Kata kunci:** Tanggungan Sosial Korporat, Pulangan Ketaas Ekuiti, syarikat awan yang tersenarai.

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 INTRODUCTION**

Corporate Social Responsibility (CSR) in Malaysia was traditionally motivated base on religious and racial values (Mustaruddin, Norhayah & Rusnah, 2010). With Malaysian government's awareness on CSR, method and technical for implementation of CSR related matters were developed. Among this guideline CSR Silver Book published by government GLC radical programme which provides companies in Malaysia a benchmark and measurement tool for CSR and as tool to measure the performance and effectiveness of the published policy. Bursa Malaysia, is a company also known as an exchange holding company, has published a CSR guideline in 2007 as a reference and guide for Public Listed Companies in Malaysia in order to carry out the implementation and report disclosure on CSR which focuses on 4 areas, namely work place, environment, community and market place.

In the year 2007, it became a mandatory for corporation listed on Bursa Malaysia to report the companies CSR practise or activity. The matter of CSR was brought even further in line with the government effort to introduced tax incentives for companies that implement CSR programs. A fund of RM 50 million was established by the Malaysian government to promote CSR activities. The corporation that demonstrate a good level of CSR practise will be recognized by the Malaysian Government and will be presented with the Prime Minister's CSR Awards at the end of each year starting from 2008. The

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