

The impact of corporate social responsibility on financial performance: Evidence from Insurance firms

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ABSTRACT

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The field of Corporate Social Responsibility (CSR) has been growing very exponentially over the past decade. There are continuous opposing views of the role of the firms in society and disagreements as to whether wealth maximization should be the sole goal of any corporations out there. With Insurance companies facing and fulfilling in the intense demand of diverse stakeholders, this study explores the impact of CSR disclosures on Financial Performance among the listed domestic-owned companies in Malaysian insurance sector. Although CSR is a hot topic in Malaysia and throughout various industries, no detailed study has been conducted to ascertain whether Malaysian insurance companies derive any benefits therefrom. The study examines the impact of CSR on financial performance using an extensive content analysis method on annual reports from 13 domestic-owned Malaysian insurance companies over the past 9 years (2008-2017). The content analysis data is further transformed into GRI CSR Disclosure Index table before matching the findings against the Financial Performance indicators (return on assets (ROA), return on equities (ROE) and earnings per share (EPS)). The relationship between CSR and ROA, ROE and EPS is tested using correlation analysis. The results indicate significant relationship between CSR disclosure and Financial Performance; designates CSR has significant impact on ROA; whereas relationship between CSR and ROE & EPS is found to be insignificant. The study suggests and indicates that insurance companies in Malaysia ought to carry out efforts continually in a bigger scale so that their CSR activities are more aligned with the reporting regulatory standards as well as to bring a positive impact in the current prospect. In addition, the remedial action proposed by Bursa Malaysia from year 2016 is expected to improve the findings of this study and bring a tremendous improvement to the exiting regulatory guidelines.

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1. Introduction

The Corporate Social Responsibility (CSR) field has been continuously emerging and reportedly more than half of Fortune 1,000 companies are now issuing CSR reports for the public (Tsaoutsoura, 2004). This is a subsequent result from continual drive by analysts, shareholders, regulators, activists, labour unions, employees, community organizations and media where they have played a crucial role in de-

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manding organization for a quick yet responsive reaction towards ever changing set of CSR issues globally. There is also an increased demand from transparency and growing expectations that corporations measure, report and continually improve their social, environmental and economic performance. Even though the definition of CSR is not that complex, however there are a number of contrasting delineations by various researchers in their previous studies. According to Tsaoutsoura (2004) CSR is defined as “achieving commercial success in ways that honour ethical values and respect people, communities, and the natural environment”. CSR is also described as an “action that appear to further some social good, beyond the interest of an organization and which is required by the respective law. A point worth observing here is that CSR is more than just following the law” and alternatively, according to Frooman (1997), the definition of what would exemplify CSR is the following: “An action by a firm, which the firm chooses to take, that substantially affects an identifiable social stakeholder’s welfare.”

Carroll (1979, 1991, 1999) indicated that there has been some forms of interest explosion on CSR grounded theories and practices throughout the European Union and the rest of the world in the 19th century, and it was regarded as largely a domestic business issue in leading countries of origin. Until recent years its popularity has spread wide into the word scene probably due to globalization factors and public now tend to see CSR initiatives virtually throughout the developed nations and initial thinking and developing taking place more frequently in emerging world nations as well. Conversely, developing economies are much slower in responding to this increased concern over CSR and the studies are found to be scarce (Nik Ahmad et al., 2003). European Union Commission (2001) define CSR as a concept whereby companies “integrate social and environmental concerns in their business operations and this form of interaction with their stakeholders is purely based on voluntary basis”. Siwar and Md Harizan (n.d.) emphasized that responsible behavior leads to sustainable business success in the long run. CSR practices in Malaysian financial service industry tend to be more angled towards community, environmental commitments, culture and philanthropic activities (Muwazir & Hadi, 2013) that are strappingly committed towards to Government’s aspiration on promoting it (Muwazir & Noordin, 2007). Ramakrishnan et al. (2015) indicated that insurance sector in Malaysia were doing well in terms of their CSR initiatives. Apart from them, there are a number of studies which have specifically narrowed into comparing between Malaysia and other countries in term of CSR performance (Foo & Tan, 1988), effectiveness of CSR disclosures, awareness of CSR across various industry (Nik Ahmad et al., 2003), as well as improvement of CSR reporting from Islamic perspective (Muwazir et al., 2007, 2013; Alamer et al., 2015a,b,c; Qureshi et al., 2014). No particular study has signified the impact of CSR on Corporate Financial Performance (CFP) and the literature on this particular area is very underdeveloped. In Malaysia, the momentum for CSR initiatives are marked as consistent with various national agenda, remarkably Malaysian Vision 2020 and National Integrity Plan that aims at greater capital growth as well as to accelerate the vaster economy.

This extensive study will add to the existing literature by focussing two important elements, namely the body of knowledge and policy implications. Majority of the past studies in accordance to CSR were mainly conducted on the developed countries. This study strives to fill the gap by providing a new horizon with regard to the disclosures of CSR activities in the context of emerging markets. In addition to that, CSR disclosures may vary due to different characteristics and requirements among various sectors and countries. Therefore, this study will provide a new empirical substantiation and a better understanding grounding of the CSR disclosures for firms in the insurance sector in Malaysia while highlighting the impact of such disclosures on firm performance subsequently. It is the first time that such kind of GRI CSR disclosure index is being applied on understanding relationship between CSR disclosure and the financial performance of Malaysian companies. Instead, this study also stipulates guidelines for the business sector by providing valuable insights for respective managers to adopt sustainable and combined approaches through the practice of CSR (Sun & Stuebs, 2012).

This study correspondingly is considered as the first comprehensive examination on the relationship between CSR disclosure and financial performance among the domestic-owned insurance companies in Malaysia. This study brings the companies with responsible CSR disclosures out to limelight. The focus is accentuated on those providing significant contribution towards sustainable environment, efforts to strengthen the existing community ties with huge encouragement on workforce diversity as well as those insisting on ethical business practices. Additionally, this study strives to generate a sturdy consciousness among the Malaysian insurance companies, it's regulating bodies and other practitioners in developing countries. It is aimed to comprehend the fundamentals of sustainable development achieved through the corporate performance and allows corporations to contribute back profits and non-financial benefits to various groups of stakeholders in their existing community (Yin & Zhang, 2012).

2. Literature review

CSR expresses a fundamental morality (Bowen & Johnson, 1953) in the way an organization behaves towards the society. Disputatiously, Friedman (2017) stated that only people could have responsibilities and business may only have artificial responsibility. There is no definite author or a specific date to mention the origin of the "corporate social responsibility" concept, however this notion said to be exist as old as enterprises since there was a continuity in the apprehension for society since then (Gonzalez-Perez, 2017). CSR is often defined as corporation's obligation beyond economical and legal to society (McGuire et al., 1988), businessman's actions and decisions taken at least partially beyond a firm's direct economic and technical interest (Davis, 1980). Bowen and Johnson (1953) affirmed that businesspeople should assume the responsibility that is desirable in terms of the objectives and values of society and argues that society's expectation is the driving factor for the idea of SR (Social Responsibility). Therefore, even though the language and wording dimension have evolved over the years, the concept of CSR has remained more or less the same as to deliver good deed to the society in the name of business to enhance their relationships with multiple stakeholders (Hou & Reber, 2011). Carroll (1991) suggested that corporate executives have had to wrestle with how they balance their commitments to the corporation's owners with their obligation to an ever-broadening group of stakeholders who claim both legal and ethical rights where at the same time few trends could so thoroughly undermine. CSR is conceptualized as a social responsibility that firms consider over and above economic and legal criteria by moving beyond economic and legal considerations (Carroll, 1979).

Contrastingly, Friedman (2017) argued that management of any organization has only one responsibility and that is to maximize the profits of its owners and shareholders, thus social issues are not concern of business and these problems should be resolved by the unconstrained workings of the free market system. CSR involvement is aimed at creating a healthy climate (Carroll, 1979) in which to function in future for the businesses, so they prior actions are being taken in ensuring its long-term viability. This is linked with a practical reason where future government interventions can be forestalled to the extent that business policies itself have already self-disciplines and fulfils society's expectations through embarking on various CSR practices. Incontrovertibly, the main reason for the existence of any organization or company is to create profit for its stakeholders. Before 1970s, corporates shared their profit with the surrounding community through various philanthropic activity (Siwar & Md Harizan, n.d.) (Kamatra & Kartikaningdyah, 2015) and it is more famously quoted as "after-profit obligation"; mean to say if a company is not profitable they do not have to behave responsibly for the said community.

Various factors including, short-sighted managers and severe economic depressions that subsequently leads to accepting discriminations, child labour practices, and pollutions as well as dangerous working conditions heavily influenced this trend (Saeidi et al., 2013). Another argumentative debate was sparked in this approach also where donating money to social initiatives will be considered as wasting shareholder's money and often regarded as non-sustainable practice for the long run and consequently it will result in lose interest by current and potential shareholders or investors. From 1980 to 1990, organizations

shifted to more better and competitive trend where sharing profits with the community from soft philanthropic approach to hard approach by properly defining the purpose of profit making (Siwar & Md Harizan, n.d.). During this period, CSR is regarded as a powerful public relation tool (Kamatra & Kartikaningdyah, 2015) to improve corporate image and performance as well as to mitigate antagonistic impacts of an organization onto environment and society.

Although philanthropy contributes less or nothing in boosting companies' profits, CSR activities are linked in improving an organization's triple bottom line; from 1990 to 2001 implanting socially responsible principles in corporate management and became important agenda (Siwar & Md Harizan, n.d.; Ramasamy & Yeung, 2009). CSR has been adopted as a corporate routine tool to ensure long-term survival and it has become part and parcel of the way in which a company carries out its business by linking triple bottom line principles by eventually creating benefit for all. In 1979, Carroll developed a very systematic model (The Responsiveness Continuum) comprehensively by integrating the philosophy of social responsiveness with social responsibility categories as well as involved social issues. This model was intended to provide intelligibility and integrated various definitional components appeared in the wide literature of CSR. In 1991, Carroll developed *The Pyramid of Corporate Social Responsibility* by integrating economic (undergirds all), legal (obey the law), ethical (do what is right, just and fair) and philanthropic elements (being a good corporate citizen).

The pyramid elements were not mutually exclusive as the components were not intended to contrast with other pragmatic responsibilities; remained as one of the grounded theory for many researchers (Ibrahim & Angelidis, 1995; Spencer & Butler, 1987; Ramasamy & Yeung, 2009). Schwartz and Carroll (2003) identified the incompleteness of the previous pyramid model thus developed *The Three-Domain Model of CSR* where it attempted to compose the CSR responsibilities only into economic, legal and ethical elements. The amended model eliminated the philanthropic element and subsumed it within the economic and/or ethical spheres by eradicating the hierarchical relationship as proposed earlier. CSR is also argued to have the ability to manage changes in a socially responsible manner which can be perceived from two different dimensions; (1) Internal CSR practices noted as socially responsible acts mainly deal with employees and related issues involving but not limited to health and safety, investing human capital, management change, environmentally responsible practices and proper handling of natural resources in production activities. (2) External CSR activities and initiatives beyond the company into the local community and involves wide range of stakeholders such as suppliers, customers, business partners, public authorities and NGOs that representing any local communities as well as environment (Siwar & Md Harizan, n.d.; Ramasamy & Yeung, 2009).

2.1 Stakeholder Theory

Freeman's (1984) grounding works on stakeholder theory gained wide popularity as it ameliorated to reconceptualize the nature of the organizations to encourage consideration of new external stakeholders beyond the conventional pool by legitimizing deeper managerial implications and understandings. Stakeholder theory been widely used by researchers across many countries defined CSR effectiveness as the ability to satisfy a wide range of stakeholders (Foster & Jonker, 2005; Maignan et al., 2005). Over the years, several essences were incorporated along with this stakeholder theory namely instrumental and normative stakeholder theory. Instrumental Stakeholder theory assumed that corporations functions as an instrument for wealth creation where CSR comprehended as one of the strategic tool (Jamali, 2008). Contrastingly, normative stakeholder theory explained philosophically grounded moral obligations (Jamali, 2008) by paying special attention on the ethical requirements that binds the relationship between business and society (Maignan et al., 2005). Stakeholder theory offers a more real-world alternative in term to assess the performance of firms regarding key stakeholder groups while CSR suffers from level of generalization (Jamali, 2008).

2.2 *Legitimacy Theory*

Legitimacy theory proposes an idea where organizations continually seek in ensuring they operate within their bounds and societies. It bounds to perform various socially anticipated actions in return to achieve its objectives, ensure survival and other forms of rewards; society plays an undeniable role in assessing the effectiveness and lawfulness of any given corporation's activities (Muwazir, 2011; Siwar & Md Harizan, n.d.). Society accelerates its expectation for businesses to spend a portion of their profits towards intensifying environmental issues, employees' welfare, consumer's safety and to the community where business is operating; much deviated from traditional claim that financial performance was best the measurement of an organization's legitimacy. Muwazir (2011) claims a legitimacy gap occurs when an organizations' performance does not equivalent the anticipations of relevant stakeholders. Strategies to close such gaps includes: (a) educate and enlighten the relevant stakeholders on the actual variations in organization's performance and activities, (b) change the discernments of stakeholders without having to change its original behaviour; and (c) rebound attention from issues of concern to other issues (Nik Ahmad et al., 2003). Substantial economic and social change over the decade have resulted in increased education resulting in accelerated public awareness on intensifying issues such as environmental impact of corporations on society in Malaysia.

2.3 *CSR Disclosure Practices*

CSR disclosures have been the focus of much academic research since the mid 1970's. The popularity of this component of research may be accredited to the ostensible increasing recognition within the business community of the importance major stakeholders attach to socially and environmentally responsible corporate behaviour (Nik Ahmad et al., 2003). Deegan and Rankin (1996), for instance, described such CSR disclosures as: "...disclosures relating to the interaction between an organization and its physical and social environment inclusive of disclosures relating to human resources, community involvement, the natural environment, energy and product safety". Many studies have been shepherded to study the content of various annual reports in regards to the CSR disclosures particularly in the developed west countries such as United Kingdom, Canada and United States of America and admittedly very few studies have focused on developing nations such as Malaysia (Belal, 2001; Imam, 2000; Tsang, 1998) and even then much of those works are out-dated or non-operational.

Study conducted by Ernst and Ernst in year 1978 among Fortune 500 companies between 1972 and 1978 indicated that 78% had revealed environmental related disclosures, 67% with disclosed information on energy and 7% disclosed issues relating to fair business practices (Nik Ahmad et al., 2003). The numbers were very similar to the subsequent studies conducted by Guthrie and Parker (1990) in UK context, Savage (1994) in South Africa and Tsang (1998) in Singapore. Up to date, two foremost empirical studies have been published on CSR practices in Malaysia. The earliest study was a personal interview questionnaire survey by Teoh and Thong (1984); surveyed an amalgamation of one hundred foreign and locally owned companies in Malaysia (Nik Ahmad et al., 2003). Teoh and Thong (1984) focused on three related issues, namely, the concept of CSR, the nature and extent of corporate involvement in such activities and corporate social reporting. They found that only 29% of companies in the sample reported on social performance in their annual reports; 71% did not. Furthermore, foreign-owned companies made more CSR disclosures than Malaysian companies and the frequent areas reported were human resources and products/services to companies. They, however, did not examine the extent of CSR disclosures. One limitation of Teoh and Thong's study is that their examination of the themes of CSR disclosures was based solely on personal interviews. No effort was made to examine the contents of company annual reports.

The European Union (EU) continent has been the area with more CSR consistent values, norms and perceptions than in other areas of the world. As a starting point, in year 1995, European Business Manifesto Against Social Exclusion was founded to provide a ground for businesses to embark onto various CSR initiatives while expanding the business network (Mullerat, 2013). France, Germany, Spain, Italy and United Kingdom are the trendsetters in CSR involvement as far as EU is concerned. Remarkably, Sweden had a long involvement on CSR since 1979 where it has embarked onto futuristic dialogues pertaining the issue since then. Forte (2013) further reveals that more developed economies like Norway, Canada and Germany tend to engage in more CSR policies in comparison with developing countries. He also found that businesses in the United States, United Kingdom, the Netherlands and France emphasized more in their dedication to numerous stakeholder issues.

Developing economies are much slower in responding to this increased concern over CSR and the studies are found to be scarce (Nik Ahmad et al., 2003). CSR in developing countries identified to be less in comparison with the developed nations and the most important drivers for such practices are mainly due to globalization factors. Even though studies have indicated the improvement on CSR initiatives by developing nations, however the growth is not making sufficient magnetism in the field. As noted by the World Bank in 2008, developing countries are expected to grow at a rate of 7.7% in comparison with 3.3% of global growth (Muwazir & Hadi, 2013). This growth will mark more attention towards investments where stakeholders been continually looking for “moral implication” that encompasses social and environmental substances to make vital investment portfolio decisions. Consequently, CSR plays an undeniable role in keeping the industry growth parity with the global or respective region’s economic growth in order to stay competitive and continue to grow further.

Extensive coverage on Asian countries has been studied profoundly concerning the CSR developments with significant focus on China, India, Indonesia, Malaysia, Pakistan and Thailand. Visser (2017) argued that CSR performances vary greatly between Asian countries with a wide range of issues being tackled (e.g. education, environment, and employee welfare). Focusing further reveals that Malaysia has only scored 32% in terms of disclosing company’s CSR practices. In a separate comparative study done by Welford (2005) further signifies that Malaysia is the weakest in terms of CSR performance, with Thailand being relatively strong follower and Hong Kong being the trendsetter. This claim is further reinforced by Saleh et al. (2010) that Malaysian companies only contribute less than 0.31% for CSR contributions which is enormously lower in comparison with European Union countries that contributes at least in average 1% of the their profit to the community.

Malaysia’s insurance and Takaful (or Islamic Insurance) segment has recorded a substantial growth in recent years by expanding its total assets by 5.6% to RM264bn (\$65.3bn). Insurance and Takaful providers in Malaysia provide an important boulevard for the general public to save and invest for their retirement at the same time attaining a form of protection from unimaginable events such as death, disability and various workplace and domestic accidents. The penetration rate was recorded at an impressive 54.9% in 2015 for insurance and family Takaful policies that is a slight drop in comparison with previous year on 2014 at 55.5%; reflecting a strong, challenging, and highly volatile condition ahead.

Malaysia’s Central Bank; Bank Negara Malaysia (BNM) regulates all Takaful and insurance entities nationwide including adjusters, brokers and financial advisors and they can only obtain a valid license to demonstrate their knowledge and skill from Ministry of Finance on the grounding recommendation from BNM respectively (Oxford Business Group, 2017). According to BNM, there were 55 insurers in Malaysia – 4 in Life and General Business, 10 in Life Business Only, 19 in General Business Only, 1 in Life and General Reinsurance Business, 1 in Life Reinsurance Business, 5 in General Reinsurance Business, 11 Takaful Operators and finally 5 in Retakaful Operators owned by both local and foreign firms equally. The overall increase in this total number is pretty astonishing especially within a year gap in year 2015 there were only 40 licensed insurers in Malaysia. In year 2014, there were a number of 29 insurance

brokers operating locally with 41 adjusters and 21 financial advisors accordingly with 85,376 life insurance agents and 39,220 general insurance agents nationwide. On the other hand, registered Takaful operators rose from 9 in year 2010 to 11 in year 2015 with 64,634 family and 16,573 general agents. Foreign investment in Malaysian industry sector capped at 70%. However, exponential growth of insurance industry in Malaysia not positively and encouragingly associated with the development of CSR initiatives. Foreign owned insurance companies mainly drive the CSR contribution in Malaysian insurance industry where they tend to bring their good practices from western counterparts (Ramakrishnan et al., 2016). CSR literature in Asian region is more tilted towards China, Indonesia, Malaysia, India, Thailand and Pakistan and it perceived a non-homogenous practices due to the different culture, religion, political and socio economic factors (Muwazir & Hadi, 2013). One of the earlier study conducted in CSR field pertaining Malaysia companies was done as early as 1984, by Teoh and Thong attempted to combine one hundred foreign and locally owned companies in Malaysia focused on concept of CSR, the nature and extent of corporate involvement in such activities and corporate social reporting (Nik Ahmad et al., 2003; Muwazir & Hadi, 2013). By then, the study only revealed 29% of companies from the sample reported on social performance in their annual reports and significantly, foreign-owned companies made more effort towards CSR in comparison with local Malaysian companies. But the study by Teoh and Thong (1984) was fully dependent on personal interviews from selected samples and the study did not disclosed any content analysis finding from annual reports and reasoning for the low disclosures were heavily linked with factors such as absence of legislation on the matter and low level of awareness of the business community on their potential environmental impact. Thus, this study seeks to provide more detailed description of CSR disclosures by employing content analysis methodology to close that gap.

Furthermore, CSR in Malaysia has attracted a substantial amount of attention since year 2006 when the Prime Minister initiated (Wan Yusoff & Adamu, 2016) and announced all the Public Listed Companies (PLCs) needs to reveal their CSR evidences and subsequently have become mandatory. A framework was developed by Bursa Malaysia in order to regulate companies in accurately identifying their CSR initiatives in four main areas namely environment, workplace, community and marketplace. Conversely, Lu and Castka (2009) argued that CSR practices in Malaysia is still in its infancy stage, where most companies are only practicing certain aspects of philanthropy and public relations (PR) as part of their CSR activities; noted as an immature practice. The same argument also noted by Reinhardt et al. (2008) mentioned that corporate legal system is often new in developing countries and there are fewer judicial precedents mapping out the law's boundaries. Consequently, businesses gain very little experience in complying or adhering to such standards matching the law. The media's role in Malaysia to bring the company's CSR practices to the limelight was heavily criticized as well that it pays more side tracked attention to only bigger organizations and SMEs are often neglected or paid only a very little attention. Disorientation on the CSR concept by just assuming it as purely philanthropy and considering money donation as a prime CSR-oriented activity also noticed in the study conducted by Lu and Castka (2009).

Insurance companies in Malaysia recorded an impressive growth of 11.4% in year 2014 with accumulated total assets summed MYR195billion as per indicated by Bank Negara Malaysia (BNM) (Economic Transformation Programme, 2014) and insurance companies represent 6% of Malaysia's total financial assets and the portion is parallel to at least 15% of the national GDP; data provided by IMF. Undeniably, "CSR has always been a significant part of any business all over Malaysia, but the intense on insurance company is real," agrees Kamaludin Ahmad, Acting CEO of Etiqa Insurance and Takaful Malaysia (Licensed Insurance Companies & Takaful Operators, 2017) and he further trusts that CSR can play a favourable role by aligning their sensitivity towards social needs. Economically, Malaysian insurance sector or industry noted as one of the noteworthy growth driver in overall financial sector with industry assets rose by 6.9% to reach RM246billion (US\$60.9) in year 2014 and subsequently further expanded at the rate of 5.7% in year 2015 and recorded an remarkable total of RM260billion (US\$64.4billion) (Oxford Business Group, 2017).

Malaysia's Economic Transformation Plan (ETP) aims to achieve the economic growth in order to transform Malaysia into a high-income nation by year 2020 and targets to penetrate into the population at 75% by year 2020 where the sector's value as a percentage of GDP (Gross Domestic Product) to augment from 2.8% to 4% during the same time frame. Further confirming this claim, CEO of Malaysia Insurance Institute, Syed Moheeb bin Syed Kamarulzaman exclaimed (Oxford Business Group, 2017) that the penetration rate capped from 41% to 56% in 2014 putting the country on right track to achieve the outlined agenda. Despite prevailing economic headwinds ahead, the Malaysian insurance sector is believed to remain in a strong position to capitalize on growing domestic demand and stable macroeconomic fundamentals.

Empirical study conducted by Muwazir (2011) on 376 selected top and executive managers from top seven financial institutions in Malaysia revealed that CSR implementation were only scored in a moderate level and this finding further affirmed the earlier study conducted by Prathaban and Abdul Rahim (2005). The increasing concern on CSR related issues in Malaysia also said to be due to continuous efforts from Malaysian Central Government and other no-government institutions (e.g. Bursa Malaysia, Security Commission, and etc.). They have also agreed whole-heartedly in the same study that extra commitments to the community and environment are required (Ibrahim & Rashid, 2002). CSR disclosure among insurance companies in Malaysia also said to be entirely voluntary in nature whereby, companies have full discretion to annual report disclosure. This indecisive element of CSR disclosure in Malaysia sparks the fear that lack of standards means any existing CSR disclosures by companies can be assumed as very much public-relations (Nik Ahmad et al., 2003) oriented elements.

3. Methodology

In this study, the sign of relationship between CSR and financial performance in regards to Earning per Share (EPS), Return on Asset (ROA) and Return on Equity (ROE) among Malaysian Insurance Companies are to be scrutinized. On the other hand, many empirical studies have proven that CSR and financial performance do not have significant relationship, which will also be a potential case in this study. This link of thinking is similar to Ullman's (1985) argument that there are a number of variable that intervene between CSR and financial performance. The third view may propose that there is a positive association, since the actual costs of CSR are covered by the gained benefits. CSR is denoted as a distinctive resource or mean where organizations embark onto in order to generate higher revenues or reduce costs – whichever that substantially improves the financial performance (Rose, 2013). Financial performance and CSR also suggest that such engagements may generate the temporal manifestation of doing “good” even when there is no substantive benefit in CSR engagement itself – potentially reputational value and repeated customers.

A firm that attempts to decrease its inherent costs by socially irresponsible behaviour; for example, neglecting to take measures against pollution that will eventually incur higher explicit costs. Socially responsible companies have less risk of negative events. It is less likely for these companies to pay heavy fines for excessive polluting, to have costly lawsuits against them, or to experience socially negative events (Tsoutsoura, 2004; Rose, 2013) that would be disparaging to their brand and reputation. In the present study, content analysis technique will be used to identify the sign of the relationships. In order to achieve the outlined objectives of this study, and to discover the impact of CSR and Financial Performance the hypotheses derived as following by assuming CSR disclosures as independent variable:

- H1 - There is a positive and significant relationship between CSR disclosure and firm's EPS.
- H2 - There is a positive and significant relationship between CSR disclosure and firm's ROA.
- H3 - There is a positive and significant relationship between CSR disclosure and firm's ROE.

3.1. Conceptual Framework

The following theoretical framework (Fig. 1) model has been developed for this study. CSR disclosure by companies is considered as independent variable whereas, Financial Indicators such as EPS, ROA and ROE are considered as dependent variable to measure firm performance.

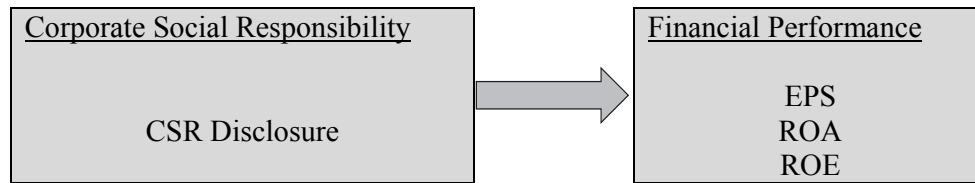


Fig. 1. Conceptual model

3.2. Research Design

This study uses mixed method where it is the type of research in which researchers attempt to combine elements of qualitative and quantitative approaches concurrently for the main purpose of extensiveness and depth of understanding and validation. Qualitative data analysis in particular for this study is more concerned on analysing annual reports (primary data) of Malaysian Insurance companies from year 2008-2016 basically by sourcing it out from their official websites, respectively. Content analysis is widely adopted method in analysing company's annual reports and it is defined as research technique to make replicable and valid inference from data in accordance to their presented original context (Nik Ahmad et al., 2003). Therefore, content analysis method was chosen for this study as well.

The principal purpose of sequential exploratory mixed method research design is to undertake qualitative data first and then proceed to manipulate them into quantitative data. It also can be further explained as it targeted to explore a phenomenon and then into collecting quantitative data to explain and witness the relationships (Subedi, 2016) found in the earlier gained qualitative data. Sometimes data itself alone cannot be understood in detail therefore it is often undergoes various interpretations before attaining a meaningful information. Census sampling technique is handled for this study. For this extensive study, 55 listed insurance companies in Malaysia are selected after all-inclusive research on Bursa Malaysia website and Bank Negara Malaysia website. Researcher did not attempt to take the top 5 or top 10 performing insurance companies in Malaysia based on their total market capitalization to avoid excessive generalization and to accurately represent the rest of tendency of other listed companies. The main reason for the researchers to introduce census sampling is due to the urge to understand the complete picture of Malaysian Insurance Company's CSR initiatives and involvements – which expected to reflect a more reliable and accurate information.

Thereafter, the 55 insurance companies are further handled by only selecting insurance companies with CSR disclosures in their website plus they are owned by local ownerships respectively to narrow down the overall focus. To further narrow down, this study focuses only on those owned by local ownership and the number consequently further dragged down to only 13 out of 28 domestically-owned insurance companies. The reason for selecting only local owned insurance companies is that majority of the insurance companies owned by foreign owners have very established background from very developed economies around the world. Foreign owned insurance companies also tend to have a well-established and efficiency-proven claim processes, risk minimization or lost control guidelines, climate change leadership, strategic philanthropy, timely recognition for human rights (Rose, 2013) as well as socially responsible investments throughout.

4. Data analysis and results

The CSR checklist is examined through company annual reports crosschecking to capture CSR disclosures of annual reports of 13 domestic-owned Malaysian insurance companies over the 9 financial years. Descriptive statistics of the number of firms disclosing CSR are produced in Table 1; it displays an overall comparison for all involved insurance companies in Malaysia and their disclosure for only those with local ownership. Out of 55 overall insurance companies, about 51% are owned by local ownership and remaining 49% are under foreign ownership. Out of the 51% the compliance towards CSR on first stage of screening through browsing for sustainability reports, website allocation for CSR related information and etc., only about 41% found to be CSR compliance whereas the remaining 59% does not implicate any revealing on CSR related information in their website, vision and mission statement as well as their corporate strategies.

Table 1
CSR Disclosure by Malaysian Insurance Companies

<i>SN.No</i>	<i>NAME OF THE COMPANY</i>	<i>CATEGORY</i>	<i>CSR COMPANY</i>
1	Etiqua Insurance Bhd	Life and general business	Yes
2	AXA Affin Life Insurance Berhad	Life business only	Yes
3	AmMetLife Insurance Berhad	Life business only	No
4	Gibraltar BSN Life Berhad	Life business only	Yes
5	Hong Leong Assurance Berhad	Life business only	Yes
6	MCIS Insurance Berhad	Life business only	NA
7	Sun Life Malaysia Assurance Berhad	Life business only	Yes
8	AXA Affin General Insurance Berhad	General insurance only	No
9	Berjaya Sampo Insurance Berhad	General insurance only	No
10	Danajamin Nasional Berhad	General insurance only	Yes
11	Lonpac Insurance Berhad	General insurance only	Yes
12	Multi-Purpose Insurans Berhad	General insurance only	No
13	Pacific & Orient Insurance Co. Berhad	General insurance only	No
14	Progressive Insurance Berhad	General insurance only	No
15	RHB Insurance Berhad	General insurance only	NA
16	Tune Insurance Malaysia Berhad	General insurance only	Yes
17	Malaysia Life Reinsurance Group Berhad	Life reinsurance business	Yes
18	Asia Capital Reinsurance Malaysia Sdn. Bhd.	General Reinsurance Business	Yes
19	AmMetLife Takaful Berhad	Takaful Operators for Family Takaful Business	NA
20	Etiqua Takaful Berhad	Takaful Operators for Family and General Takaful Business	Yes
21	HSBC Amanah Takaful (Malaysia) Berhad	Takaful Operators for Family and General Takaful Business	No
22	Hong Leong MSIG Takaful Berhad	Takaful Operators for Family and General Takaful Business	NA
23	MAA Takaful Berhad	Takaful Operators for Family and General Takaful Business	No
24	Prudential BSN Takaful Berhad	Takaful Operators for Family and General Takaful Business	Yes
25	Sun Life Malaysia Takaful Berhad	Takaful Operators for Family and General Takaful Business	Yes
26	Syarikat Takaful Malaysia Berhad	Takaful Operators for Family and General Takaful Business	NA
27	Takaful Ikhlas Berhad	Takaful Operators for Family and General Takaful Business	No
28	MNRB Retakaful Berhad	Retakaful Operators for Family and General Retakaful Business	Yes

Table 2 presents the overall CSR disclosure index scoring for all the 13 insurance companies along with yearly total score and company total score throughout the selected timeframe of 9 financial years.

Table 2**CSR Disclosure of All Domestic-Owned 13 Insurance Companies**

<i>Insurance Companies</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>Company Total</i>
AXA Affin Life Insurance Berhad	0	0	0	0	0	60	70	50	70	250
Gibraltar BSN Life Berhad	0	0	0	0	0	10	10	0	0	20
Hong Leong Assurance Berhad	0	0	0	0	0	0	40	0	0	40
Sun Life Malaysia Assurance Berhad	0	0	0	0	10	10	10	10	10	50
Danajamin Nasional Berhad	0	0	10	10	10	20	10	0	0	60
Lonpac Insurance Berhad	50	30	30	30	30	30	30	30	30	290
Tune Insurance Malaysia Berhad	0	0	0	0	0	30	70	50	0	150
Malaysia Life Reinsurance Group Berhad	0	0	0	0	0	0	0	0	0	0
Asia Capital Reinsurance Malaysia Sdn. Bhd.	0	0	50	40	40	30	30	0	0	190
Etiqa Takaful Berhad	0	0	0	0	0	20	0	0	0	20
Prudential BSN Takaful Berhad	0	0	0	10	10	10	10	10	10	60
Sun Life Malaysia Takaful Berhad	0	0	0	0	10	10	10	10	10	50
MNRB Retakaful Berhad	0	0	0	0	20	10	10	0	0	40
<i>Yearly Total</i>	50	30	90	90	130	240	300	160	130	<i>1220</i>

As per depicted in Table 2, Lonpac Insurance Berhad scored highest (total 290) CSR disclosure throughout the 9 years followed by AXA Affin Life Insurance Berhad (total 250) and Asia Capital Reinsurance Malaysia Sdn. Bhd. (total 190). As for the individual years, 2014 recorded the highest attainment with cumulative score of 300 followed by year 2013 with 240 points and year 2015 with a score of 160. The graphical illustration of the aforementioned results represented in the following figure (Fig. 2).

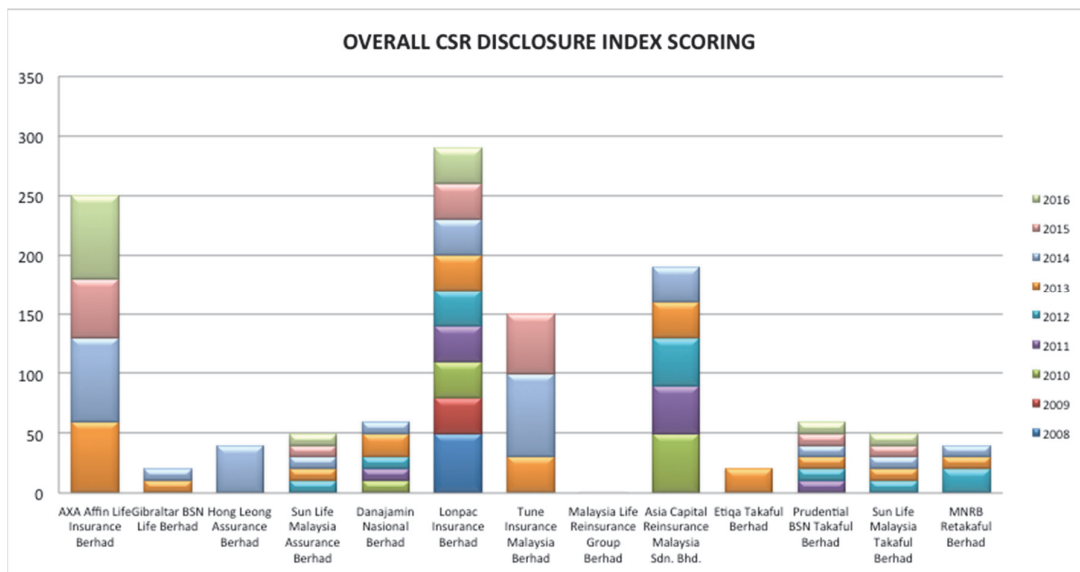
**Fig. 2.** CSR Disclosure of All Domestic-Owned 13 Insurance Companies

Table 3 represents the correlation analysis for the entire 13 domestic insurance companies in Malaysia to further analyse the relationship between the financial performances. Malaysia Life Reinsurance Group Berhad is excluded in the overall correlation analysis computation due to unavailability of any CSR disclosure scoring as well as to avoid the influence of it on the ingenuity of overall analysis.

Table 3

Correlation Analysis for Domestic-Owned 12 Insurance Companies

	Correlations			
	CSR	EPS	ROA	ROE
CSR	1			
EPS	-.047	1		
ROA	.272**	.133	1	
ROE	.156	.462**	.681**	1

*. Correlation is significant at the 0.05 level.

**. Correlation is significant at the 0.01 level.

The correlation analysis indicates a weak (negative) linear relationship between CSR and EPS, whereas a weak significant positive linear relationship was noticed between CSR and ROA as well as for CSR and ROE; even though CSR and ROE was not a significant one. Table 4 illustrates the total score count for each criteria listed in the CSR disclosure index according to the respective financial year.

Table 4

CSR Disclosure Criteria Total Score

Criteria	Year										CRITERIA TOTAL
	2008	2009	2010	2011	2012	2013	2014	2015	2016		
1 CSR Disclosures in Annual Report	-	-	-	-	-	10	10	10	-	-	30
2 CSR as Corporate Strategy	10	-	10	-	10	10	30	20	10	-	100
3 Role of Board of Director in CSR policy of company	-	-	-	-	-	20	10	10	10	-	50
4 Role of Independent Director in CSR	-	-	-	-	-	-	10	10	10	-	30
5 CSR as Board Agenda	-	-	-	-	-	20	20	10	10	-	60
6 Sustainability report and its content	10	10	30	30	70	90	90	50	50	-	430
7 CSR Committee	10	-	10	10	10	10	20	-	-	-	70
8 Financial Disclosures of CSR activities	10	10	20	30	20	40	60	40	20	-	250
9 % of profit towards CSR activities	-	-	-	-	-	-	-	-	-	-	0
10 Inclusion of all stakeholders for CSR activities	10	10	20	20	20	30	50	20	20	-	200
TOTAL	50	30	90	90	130	240	300	160	130	-	1220

The total criteria score indicates 13.56% overall attainment with criteria 6 (sustainability report and its content) being the top scorer with 430 points, followed by criteria 8 (financial disclosures of CSR activities) and criteria 10 (inclusion of all stakeholders for CSR activities) respectively. The aforementioned data further presented in the graphical visual as per following figure (Fig. 3).

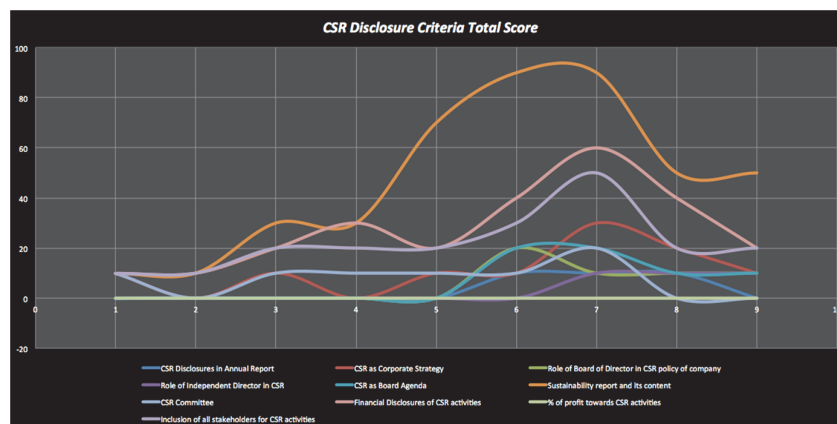


Fig. 3. Graphical Presentation - CSR Disclosure of All 13 Insurance Companies

From the above figure it can be observed that, most of the CSR disclosure criteria have been improving over the 9 years gradually although the overall accomplishment is not a significant one. The attained results are consistent with past study conducted by Kamatra and Kartikaningdyah (2015); Jitaree (2015) indicates that CSR does not affect EPS. Commonly, an investor is willing to invest in an organisation with the hope to earn dividends that subsequently provides them with wealth maximization. However, the initial investment factor does not stay forever as the investors may continually look for more advanced information pertaining CSR initiatives from them. It is also possible that positive and negative relationship between CSR disclosure and EPS may have been subjected to the volatile and uncertain economic condition. Conclusion from this result rejects the hypothesis H1. The results are also consistent with Kamatra and Kartikaningdyah (2015); Cahyono (2011); Malik and Nadeem (2014)'s findings, CSR disclosures have a positive impact on ROA. CSR in company annual reports in general aimed at providing an indication of the signal on the company's concern towards the society and environment. Signs of this signal acquired from annual report expected to receive positively by the market and public to affect the performance and financial performance eventually. Therefore, H2 is accepted.

Past studies by Cahyono (2011); Qureshi et al. (2014); Husnan (2013) confirmed that CSR does not brings an effect on the ROE. When implementing CSR initiatives, an organization will indirectly acquire good image and word of mouth from public' perception. A good image will subsequently transform into an attracting factor for potential investors to invest in company; resulting in profit maximization. However, not all the investors assume CSR as an attractive factor for their investment – often they see CSR implementations as imaging factor, green washing efforts thereby plummet the interest of investors to further invest to the company. As a conclusion hypothesis H3 is rejected.

5. Discussion

Reflecting back on the GRI CSR disclosure index, sustainability report and its content scored the highest followed by financial disclosures of CSR activities and inclusion of stakeholders for CSR activities. The emergence of various non-government organisations and mounting environmental pressure has caused Malaysian businesses to embark onto CSR disclosure practices in order to respond to social responsibility concerns. As a result, annual reports have become the main media of communication for businesses to convey their CSR disclosures to the general public. CSR reporting in Malaysia is entirely voluntary even though Bank Negara Malaysia has made it mandatory for the listed corporations to enclose it, there is no universal standard approach has been embarked onto in order for reporting and disclosures. Therefore, companies have full freedom on being selective on including CSR related information in their respective annual reports. However, unavailability of standards in reporting may mean that any existing CSR disclosures can be much public relations and green washing oriented – resulting in major deviation from the ultimate purpose of such disclosures. The 5% (430 out of 9,000 overall score) attainment in disclosing CSR initiatives in annual reports (peak in year 2014 and 2015) is certainly insufficient to prove the increasing trend of such practices. However, in October 2015, Bursa Malaysia launched a new sustainability framework consisting amendments to the listing requirements and the issuance of a sustainable reporting and toolkit to further enhance this system. This change will take effect on staggered basis from 31 December 2016 to 31 December 2018 where it will allow Public Listed Companies with market capitalisation over MYR2 billion to disclose their Sustainability Statement on annual reports after 2016. This remedial action is taken after finding out that previous implementations and initiations by Bursa Malaysia that did not effect in a favourable outcome whereby most of the companies in Malaysia only recognize CSR as philanthropic initiatives with very little link to the business core or strategy. Even though, none of the insurance companies in Malaysia were listed in the first batch of constituents of these above-mentioned new changes, it is believed to be incorporated in near future where a major change in the CSR disclosures in insurance company's annual reports is much foreseen. Apart from it, the new guideline by Bursa Malaysia will include handy toolkits comprising governance issues, materiality assessments, materiality matrix, stakeholder engagement, stakeholder prioritisation matrix, and themes and indicators. As a result, these toolkits are expected to further improve the scoring of criteria 1, 2, 5, 6, 8 and 10 of the

CSR Disclosure Index expended in this study. There are arguments that firms with solid financial performance have more resource allocations for CSR activities to address employee relations, environmental concerns and community relations. Indirectly, those allocations in the long run may become a strategic advantage for them in the form of better public image, improved stakeholder relationships and improved ability to attract more employees. This claim is in-align with stakeholder theory where it utilizes CSR as an instrument for wealth creation.

In Malaysian context, with average CSR disclosure it is challenging to determine the overall impact of CSR practices on firm performance. This is further supported by the claim by Nik Ahmad et al. (2003) that this challenge is posed by nature of CSR disclosures in Malaysia where it is ad-hoc, general and self-laudatory in nature. In addition to that claim, these companies also disclose the CSR activities just to enhance their brand image, popularity and to create a temporal illusion to be seen as responsible corporate citizens; confirming the legitimacy theory. Since the main agenda for any organisation is to achieve higher level of financial benefits, gaining a substantial competitive advantage plays a crucial role in determining that aim. As one of the step to gain that competitive advantage is through CSR attempts that yields to build a good and favourable position for firms in an extremely competitive market. Therefore, it can be inferred that CSR comes along with financial benefits; significantly on ROA where it focuses more on image building, creating brand loyalty and in achieving market stability. This positive relationship can be further affirmed by directing that institutional investors, including some insurers (Rose, 2013), may recognize that non-financial factors are appropriate and powerful considerations when it comes to investing. Weak positive relationship between CSR - ROE can be further justified through findings by Waworuntu et al. (2014); Ofori et al. (2014) that most of the stakeholders for insurance companies are made up of investors and shareholders whom are more concerned about the disclosure regarding the economic and social aspects of the firm. Even it is a weak correlation relationship between CSR and ROE, it can concluded that, as the number of economic disclosure increase, there will be an increase in the profitability of the firm as well. This study also shows there is no relationship between CSR and EPS as this finding is opposed from previous study undertaken by Karagiorgos (2010); Kwanbo (2011) and Ehsan and Kaleem (2012). While EPS is an important indicator for shareholders to determine their investing decisions, this opposing result among domestic owned insurance companies in Malaysia sparks an argument on the lack of initiatives on CSR disclosures and regulatory requirements on such reporting that are relatively weaker.

6. Study Implications

First of all, it appears without any form of regulatory intervention, dependence on voluntary disclosure alone is unlikely to result in either a high quality of disclosure or sufficient level of disclosure (Nik Ahmad et al., 2003). Therefore, intervention of Malaysian Accounting Standards Board (MASB) along with Securities Commission is highly encouraged in order to look for possible ways in making the CSR disclosure as a mandatory reporting element apart from those initiatives undertaken by Bursa Malaysia. Some of the insurance companies may choose to not report CSR disclosures by perceiving that society's pressures resulting in a need for them to adhere to higher standards. Making mandatory reporting will provide a common ground in term to evaluate the financial performance, competitive advantage and many other measurements. The lack of comparability may result in investors to find it hard in determining which companies are more socially responsible. Apart from that, insurance companies in general has a distinct features in economy and in the financial system in a country especially it's functionality as a branch that participate in the growth of gross domestic product (GDP) (Simona, 2013), participates with loan equity demand on the market, it speeds up the production process by making huge contribution in restoring goods, leads to increased productivity within a national economy, it is often regarded as reflection of a national economic development as well as functions as factor that reduces uncertainty and a means of reassuming the temporarily interrupted activities. Therefore, these aforementioned functions

could be further enhanced if CSR disclosures are blended within insurance business activities in Malaysian context. The presented results suggest that insurance company executives and managers in Malaysia may find a way to minimize their CSR investments in all dimensions because those investments do not appear to impact their firm's performance at all. However, caution should be exercised when practically implementing the suggestions. For instance, effects of CSR initiatives may be time variant, not stationary and in that case, consumers' perceptions or employees' education levels regarding CSR investment may change over time, as do the effects of various CSR disclosures.

7. Managerial Implications

Insurance companies may face uncertainty and justifiably uneasy on spending to implement CSR initiatives when the benefits are not always quantifiable and may only be ostensible in the long run. However, to keep up the pace with amounting pressure from various stakeholders, it is relatively difficult to maintain the view that insurance companies are under no obligation to consider the broader CSR interests of all stakeholders. Reputational damage can be a nightmare for Malaysian insurance companies in providing a guarantee for continued survival. Therefore, in align with the findings of this study, Malaysian insurance company managers may require to keep their operating costs low in order to maintain their obligations to both stakeholders and society in a balanced perspective. For instance, insurance operators may embark on comparative overhead, infrastructure and claim-processing costs (Rose, 2014) in order to provide affordable insurance services while maintaining its presence on CSR initiatives. This type of implications explains the expenses reducing efforts by keeping the revenues on upstream condition. Maverick (2015) further suggests that insurance companies in general is required to maintain 0.18% ROA as it is the industry average which is relatively lower in comparison with other industries due to the nature of insurance industry on generally having a substantial amount of financial assets. CSR initiatives also can function as external risk minimization tools (Simionescu & Gherghina, 2014) especially when money alone does not function as repair damage. Internal risks could be often minimized through timely implementations of proper policies and procedures (e.g. Occupational Health and Safety guidelines) whereas external risk minimization may require more efforts to incorporate; CSR could be a good solution. CSR practices by Insurance companies in Malaysia could be more aligned towards working closely on client's internal decision making processes, risk management procedures and ethics (Rose, 2014). It could be further narrowed into minimizing claim costs by considering discounted premiums to insured that take preventive measures (e.g. Discounts for households that install security systems in advance). In addition this effort can be linked in-align with the findings of this study, where higher CSR disclosure leads to improved financial performance by increasing revenues. The increased revenues is attainable with above-mentioned discounted premiums offering that subsequently leads to improvised customer services or even by exploring the market segments (e.g. Fidelity Insurance) that insurance companies may have not identified previously. By embarking on those platforms, CSR disclosure can be an advantageous tool for insurance companies when the managers tend to communicate the unique benefits of CSR and tend to differentiate their firms and create a good and positive brand image (Malik & Nadeem, 2014). With insurance has become more like a commodity, an area in which any insurance company with low cost structure, greater efficiency and better customer service will beat out the industry's competition. Even with diverging impact of CSR on market-based accounting indicators, through CSR along with well-intentioned cause, insurance companies can build a strong brand loyalty where it becomes as one of the prominent asset in the long run (Simionescu & Gherghina, 2014) bringing a desired effect on increased sales, consumer loyalty, improved brand image and positive media coverage.

8. Limitation of Study

The present study is subject for several limitations. One of the limitations of this study is that annual reports for financial year 2016 is only obtained from 7 insurance companies out of 13 companies due to the timeline whereby those companies have not published them. Second limitation would be, since lack

of comparability in CSR disclosures in annual report, it is anticipated that many insurance companies are doing CSR activities but not disclosing it in annual reports for some unknown reasons; where it would be more promising if the CSR or Sustainability Managers from each insurance companies can be communicated through face-to-face interviews further to examine the real scene to understand better. The limitation of content analysis research method of CSR Disclosure also subject to human error (Hoq et al., 2010); as this study only pays attention to only information that disclosed in annual reports and websites where insurance companies may choose to disclose it in other media such as firms' standalone reporting, in-house magazine, newspapers and more. This study also focussed mainly on annual reports where there is a high possibility for insurance companies to report their CSR activities in other media like newspapers, advertising, company brochures as well as promotional leaflets.

9. Future Study Recommendation

Future study can be directed in exploring the causal mechanism linking CSR disclosure to profitability and to determine whether or not those relationships hold consistently over time to see a clearer trend. It could be advised to postulate the timing in the relationship between CSR and firm performance indicators since it would provide a valuable reason to further investigate and to ascertain on how long duration it takes for the impact of CSR to be revealed fully. To attain that, the new changes initiated by Bursa Malaysia is expected to be a handy tool to meet such objectives. Future research also could be directed on analysing insurance companies owned by foreign ownership to see if they practice distinctive CSR disclosures in Malaysia context thus, the comparative analysis would be useful for locally owned insurance companies. In addition, future study is also advised to be on comparison based where the researchers may embark onto comparing the CSR disclosures among foreign and domestic owned Malaysian insurance companies to reveal and associate the pattern of it. Gaining data through primary sources in the form of personal interview with respective insurance company's Sustainability Managers, Board of Directors or even CSR Managers may reveal more insightful information pertaining this topic; based on the assumption that insurance companies may involve in CSR disclosure but they do not disclose it due to various conflicting reasons. Finally, the future direction of this study also could be directed to reveal more information by incorporating more financial performance indicators (both accounting-based and market-based, e.g. price earnings ratio, market to book value, stock return and etc.) in order to gain more comprehensive view of the actual scene.

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