

Corporate social responsibility disclosure in malaysia essay sample

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Corporate social responsibility disclosure in Malaysia

2. 0 INTRODUCTION

Social Accounting (such as corporate social responsibility) is becoming an emerging topic among the people in corporate world. It was defined as the individual items reporting; for instance, health, reducing pollution, and safety measures by U. K Government's Green Paper in 1997. It is also defined as the voluntary disclosures of information (qualitative and quantitative) by Mathews in 1993. Moreover, CSR was determined as the quantity of reported costs and advantages which begins from economic activities and benefit to the whole society. CSR is usually performed with the aim to improve important aspects of society or community relations. According to Deegan and Rankin (1997), CSR should involve the revelation of information to stakeholders (customers, shareholders, suppliers, etc.), and providing feedbacks to management to improve environmental innovations. The annual reports provide highly effective in promoting image of corporate. As a result, there are many organizations in the world using their annual reports as a media to transmit CSR information recently.

3. 0 BACKGROUND OF RESEARCH

Malaysia has significant changes in the economical and social movement in the past years. And one of the main issues which occurred radically in the world in general and Malaysia in particular, is corporate social responsibility. As we know in developing country like Malaysia, CSR plays an important role to ensure long-term business success for corporations. CSR can be applied in company's policies, strategies or commitments toward society and <https://assignbuster.com/corporate-social-responsibility-disclosure-in-malaysia-essay-sample/>

environment. So, the sudden increase on the subject has attracted much attention. According to Fukukawa and Moon's research (2004), Malaysia falls into the number of countries which have a relatively low level and vision of CSR involvement. It is ranked number 7 out of 9 showing the sluggish involvement in implementing CSR. Follow to Teoh and Thong's study in 1984, there was a lack of CSR reporting which did not show information on the CSR corporate performance.

And in lately survey of ACCA (2004), 43% of companies revealed CSR information in their annual reports, despite the low involvement of CSR reporting by all other firms in the country. CSR framework introduced by Bursa Malaysia in 2006 aimed at investigating in Malaysian companies' current status pertaining to CSR disclosures. Besides, many other surveys have been conducted such as social performance by Abdul Rashid and Abdullah in 1991, social reporting by Mohamad and Ahmad 2002. Moreover, during the year 2002, Nik Ahmad & Abdul Rahman along with Abdul Rashid & Ibrahim have done researches on the perception and point of view of Malaysian managers towards Social Accounting. These researches will focus on trends and the level of CSR practices and awareness on previous discussion, especially in public companies which have been listed in the Bursa Malaysia CSR framework.

4. 0 THE IMPORTANT OF CSR DISCLOSURE

Companies realize that they can contribute to the development of the company by promoting economic growth, increasing competitiveness in addition to environmental protection and social responsibility commitments.

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Thus, the sustainability of business is not only in maximizing profits but also through responsible behaviour and market orientation.

Non- financial reporting has become an important factor which to create transparency for a firm's actions with responsibilities on social and environmental issues. It is driven by potential business value created through stakeholder reporting and communication. And it is necessary to CSR disclosure informs the public about implementation process corporate' social responsibility and describe the impact of company for operating in a given environment. During operations, companies take up resources and emit polluted air, hence, it seems that companies owe society and in order to compensate the loss, they also need to perform their responsibilities to society.

The maintenance CSR disclosure in annual reports which include the issues of society and environment from financial results is essential, because in the stakeholders' point of view, they see CSR as opportunities to develop and promote their images as well as reputations, with the goal of gaining long term profit. Besides that, CSR plays a decisive role in the sustainability of a firm as it affects the business decision making. Therefore, there is an ever increasing of concern about the CSR disclosure in its aspects within the business society. The research dilemma may support to illustrate the meaning of solving the issues of CSR disclosure on following section.

5. 0 RESEARCH PROBLEM

As we know, CSR disclosures as a mean of communicating and representing firm's commitment in order to improve environmental performance to the stakeholders. Malaysia has transpired astonishingly in CSR involvement. However, it is still at a relatively low pace which reflects in their annual reports of both social and environmental responsibility. Through several surveys, most of companies' environmental reporting is lacked of breadth and depth information. It presents that there is a small number of people who willing to disclose environmental information. Therefore, the general purpose of the study is to explore the corporate non-financial reporting practice as well as to reveal differences and similarities in the ways of disclosing non-financial information and in the common corporate social responsibilities activities.

It could be focus on identifying certain firm characteristics such as financial performance, environmental contributions, and community activities. Firstly, the personal survey will provide a lot of information on a company's status. And then content analysis will be used to observe the disclosure subjects of corporate finding out CSR activities. Next, by using multiple regression analysis approach, we could gain accurate correlations and essential information on the area of CSR disclosures. Thus, with these methods above, the present study would seek to promote a more complete illustration of CSR disclosure which is discussed in following chapter

6. 0 RESEARCH OBJECTIVES

This research is aim to test the factors and influences which affect the CSR disclosure extent impact on selected Malaysian public listed companies' annual reports.

And the question is: Does corporate differ in the extent of CSR practices by listing status, nature of companies?

The objectives of this research are as follows:

- . To test the CSR disclosure performances of random selected samples of Malaysian public listed companies.
- . To increase numbers of multiple regression models to explain CSR disclosure performances in Malaysian public listed companies.
- . To study the areas described by Malaysian public listed companies on their CSR practices.

7. 0 ORGANIZATION OF THE RESEARCH

This study was created towards the close connection with a smooth flow in reading and thinking throughout the paper. So, organization is described easily for readers as following:

- . Chapter 1 will be an overview of what will be covered in the next parts referred to this study which involves an extensive numbers of discussions with backgrounds in terms of the CSR basic understanding, next is the primary research topic and intention.
- . The following chapter is known as Literature Review. It based on previous research documents and resources to provide essential understanding and knowledge related to CSR disclosure and the reporting of CSR. A discussion

will be used base on theoretical frameworks to improve the depth of this research about CSR disclosure.

. Chapter 3 explains the methodology used in the study to gather data and gain predetermined objectives of the study. Besides, it also used like an accurate guide of steps to complete the study.

. And last chapter will be the conclusion result in what have been gained from the previous chapter in context and observed

. The last page of the study is appendices which will be shown after the references and bibliography intent to gather data or calculate the specific lead to the results of this study.

CHAPTER 2

LITERATURE REVIEW

1. INTRODUCTION

Being a concept in evolution, CSR disclosure done by firms hasn't been explained convincingly yet by any theory (Choi 1999). This is mainly due to the fact that there isn't a single specific strategy or model that accumulates everything in the corporate environment. The Legitimacy Theory, Political-Economic Accounting Theory, Stakeholder Theory, and Institutional Theory have been mentioned in many CSR studies, specifically those concerning CSR disclosure determinants. These concepts are seen to reinforce each other according to the assumptions underlying the broad provision of political-economic accounting theory.

Grey et al (1995, 2001) stated after a comprehensive research that CSR disclosure practice happens to be a very complicated matter due to the sophisticated process of bringing together all assumptions and procedures used in different theoretical arguments, which then results in inconsistent conclusions as to why most firms are driven to make CSR disclosure. The section that follows provides a detailed background of the idea of CSR and the basis of CSR reporting so as to act as an introduction to the preceding discussion, then followed by posited theoretical procedures.

2. CONCEPTUALIZATION OF CSR

This part intends to provide a general idea of the concept of CSR. The CSR concept, a very common term in the corporate environment, has been thoroughly explained in connection to . And last chapter will be the conclusion result in what have been gained from the previous, all of which emphasize the idea that companies should not only focus on generating maximum profits but should also undertake voluntary activities that produce social benefits even if way beyond organizational interest (McWilliams et al, 2006). There happens to be so much ambiguity when it comes to defining the concept of CSR, a single definition is yet to be agreed upon. Fig 2. 1 is not comprehensive but shows some of the few widely accepted conceptualizations. In connection to this particular study There happens to be so much ambiguity /dimension that applies to all PLCs in Malaysia that lists the 4 main areas of focus The annual reports provide highly effective in promoting image of corporate that applies to all

FIGURE 2. 1| Conceptualisations of CSR|

The actions of protecting and improving both the welfare of society as a whole and the interest of the organization has developed by (Davis and Blomstrom, 1975).| “ In order to focus on the relationship between companies and society - both the local community, which surrounds a business and whose members interact with its employees, and the wider and increasingly worldwide community, which touches every business through its products, supply chain, dealer network, and its advertising, among other things” (McIntosh et al., 1998).| “ CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large” (Holmes and Watts, 1999).|

“ Open and transparent business practices that are based on ethical values and respect for the community, employees, the environment, shareholders and other stakeholders. It is designed to deliver sustainable value to society at large.” (Bursa Malaysia, 2006)| “ A company’s commitment to operating in an economically, socially and environmentally sustainable manner whilst balancing the interests of diverse stakeholders. CR requires business to behave ethically and contribute to economic development while improving the quality of life for its people, and its impact on the environment and society in general.” (CSR Asia, 2008)|

3 CSR REPORTING AND DISCLOSURE PRACTICES

The annual reports provide highly effective in promoting image of corporate.

As a result, there are many organizations in the world using their annual

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reports as a media. In this particular context, disclosure refers to giving an appropriate and adequate quantity of information so that the disclosing organization can attain a good level of sustainability (Zeghal, 1990). CSR reporting and disclosure requirements provide a framework within which organizations can communicate and provide information to their shareholders concerning financial, environmental, social and other areas of their performance, while at the same time describing the effects of their operations. As a way to portray the desire of the company to obtain better credibility while building goodwill and a brand name with good reputation, companies would normally be open to engaging in CSR reporting aimed at providing a balanced and faithful representation of their CSR performance (Lindgreen et al, 2008). Thus, to ethical and responsible corporations, CSR disclosure practice is usually seen as an integral part. On a macro level, CSR disclosure has evolved over the past few years to become the focus of many business studies.

The increase in interest in this area of study can be attributed to the acknowledgement of the importance that shareholders place on socially responsible corporate practices nowadays (Zadek, 1998). CSR reporting is globally emphasized and this can be seen from a variety of instances; The US National Association Of Accountants formed a committee on accounting for corporate social performance in 1972. This committee later provided a framework for CSR reporting concerning the features of community involvement, human resources, physical resources, environment contribution and product and service contribution (Lindgreen, 2008). In this particular study, the CSR framework made up by Bursa Malaysia (2006) will be

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employed to list down the aspects of environment, community, market place and work place as a reference in reviewing CSR performance by a selected number of Malaysian PLCs. Deegan and Gordon (2002) defined CSR disclosure as follows: “.... Disclosures relating to the interaction between an organization and it’s physical and social environment inclusive of disclosures relating to human resources, community involvement, natural environment, energy and product safety.”

Ernst and Ernst (1978) together with Guthrie and Parker (1990) came to the conclusion that among the many empirical studies aimed at testing CSR disclosure, most of the studies were pro-Western, which implies that the outcomes can’t be generalized in Malaysia, mainly because Malaysia is still developing. There are very few researches which have studied CSR disclosure in developing countries such as Singapore and Malaysia (Teoh and Thong, 1984; Andrew et al., 1989; and Tsang, 1998). Most of these researches are very small fragments in nature and are presently considered outdated. Results obtained from researches on developing countries are largely lower than those on the developed, apparently. The annual results for social and environmental related information for Fortune 500 companies from 1972 to 1978 were studied by Ernst and Ernst (1978) and it was discovered that out of the 500 companies, 388 companies had environmental related disclosures, 333 companies disclosed energy related information, 387 companies disclosed information related to fair business practices, 302 disclosed information on human resources, 361 on community involvement, 184 about their products and 120 disclosed information on other social responsibilities.

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The results showed a high amount of CSR disclosure among these companies. In contrast, Tsang's (1998) results on this 10 year study (1985-1996) on 33 PLCs in Singapore showed weak CSR disclosure performance. Relatively, the Singapore study performs badly when compared to that on the Fortune 500 companies in the US. The extent of CSR disclosure still shows to be lagging behind that of the West although some of the items measured by Tsang's (1998) have increased over the decades. In connection to this current study, it is vital to make a very good look at CSR disclosure in the scope of Malaysia. The rise of NGOs like the World Wildlife Federation (WWF) Malaysia has provided an unprecedented role in giving awareness directed towards the environmental and social disclosures. ACCA Malaysia (2002) has also made a good report in the trend of Malaysian firms in terms of CSR disclosure. A fraction of the Kuala Lumpur Stock Exchange (KLSE) main board listed companies was discovered to be involved in a certain level of CSR disclosure.

The research results displayed 25 companies which disclosed some sort of CSR related information in 1999, rising to 35 in 2000 and another 5 companies in 2001. Davis (1960) determined that businesses have a strength which can be used in the environment in which they operate, in consistency with the preceding, respectively . There is statutory requirement/prerequisite for PLCs to undertake CSR disclosure, however. The Bursa Malaysia only requires Malaysian PLCs to display the existence or non-existence of CSR practises in the annual reports they make. The Malaysian Accounting Standards Board (MASB) has also issued a standard in MASB 1 paragraph number 9, in which it requires companies to report on

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environmental and value-added statements in their annual reports which would be useful for investors in making investment decisions (ACCA, 2003).

4 Theoretical Framework To CSR Disclosure

4. 1 Political Economic Theory

CSR disclosure by corporations is also mentioned in the political economic accounting theory. This theory sees a corporation as an ingredient in a structure determined by a large system comprising of social, political and institutional determinants (Waller and Lanis, 2009). Davis (1960) determined that businesses have a strength which can be used in the environment in which they operate, in consistency with the preceding larger system argument. In effect, firms have a social responsibility with this power due to the fact that it can result in social impacts. In a later study by Davis (1973), this idea was referred to as 'corporate citizenship'. The political economic accounting theory is known to cover the features of legitimacy theory and stakeholder theories due to its comprehensive definitions, discussed below. It's believed that different economic factors lead to political-economic costs which control the way in which firms report their information (Zmijewski, 1979).

Watts and Zimmerman (1978) had declared that politically sensitive corporations are usually forced to make socially responsible accounting practices and disclosures so as to reduce the unwanted political costs. It was seen on the same study however that firm size does not necessarily control the sensitivity of firms to political awareness. In this study, the legitimacy theory and Stakeholder agency theories will be given more emphasis since

they have been discovered to be more important to CSR studies (Hamid, 2004). Gray et al. (1995) also defends this idea since it's argued that both theories can be seen as coinciding viewpoints under the political economy framework.

4. 2 Legitimacy Theory

Studies on legitimacy and it's relevance have gained speed dating almost 3 decades ago, beginning in Western developed countries. Suchman (1995) in his CSR studies defines legitimacy as follows: " a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs, and definitions". Aldrich and Fiol (1994) stated that the ultimate survival of a company largely depends on factors beyond the business industry's overall health or performance. They stated that legitimacy is a very important aspect that influences the survival capabilities of corporations. Most of CSR related studies tend to employ the legitimacy theory to explain the main driving force of firms in engaging in CSR disclosure and reporting practices (e. g. Patten, 1991; Adams et al., 1998, Hamid, 2004, Ghazali, 2008). Due to that reason, legitimacy theory has been looked at in this study so as to explain the depth of CSR disclosure among PLCs in Malaysia.

Key to the legitimacy theory is the idea that actions carried out by corporations in the process of doing business has an effect in the society or environment it belongs to. When applied to CSR disclosure, it can be argued that CSR disclosure practises by corporations are made to cover environmental and societal factors, in a way that CSR disclosure activities

serve to legitimize their actions and behaviour (Preston and Post, 1975).

There happens to be pressure from the public as regards to corporate behavior and actions, especially when the people are made aware of the fact that a corporation is putting public interest in jeopardy. For instance, a logging company that doesn't plant new trees. If companies happen to be sensitive towards a change in the public's perception then and they also happen to be good corporate citizens responsible for CSR activities, they will display legitimacy related characteristics.

In effect, these corporations are highly likely to respond to such changes by raising the amount of CSR disclosures practices in their primary form of communication with the public, annual company reports (Lindbloom, 1994). Thus, CSR disclosure practice is vital in justifying a company's actions and ensuring legitimacy, which would eventually reflect sustainability. However, there were researches that came to the conclusion that the legitimacy theory by itself is incapable or insufficient to explain the CSR disclosure practices observed in the companies studied (e. g. Gray et al., 2001; Quiroz-Onate and Aitken, 2007). Gray et al. (1995) stated that firm may raise their efforts in CSR disclosure as a way to portray and develop their socially-accountable corporate image, at the same time ensuring their perpetual succession. Hogner (1982) investigated the classes of CSR related data as displayed in the annual reports of the US steel companies from 1901-1980.

The study showed that corporations actually make CSR disclosures from time to time and the empirical results prove the legitimacy theory as tool that provides a theoretical explanation. Hackston and Milne (1996), also proved

that the legitimacy theory is vital in explaining how CSR disclosures practises are affected by the size of a firm. Large firms are required to legitimize their actions by a great deal since they have more attention from the general population. However, there were researches that couldn't prove the relevance between legitimacy and CSR disclosures practises by companies. Guthrie and Parker (1989) studied a big, old corporations in Australia in terms of its CSR disclosures practises in over a century of annual reports. The results were inadequate to prove the relevance of the propositions made by the legitimacy theory to CSR reporting. Gray et al. (1995) stated that the activities of firms and their content of disclosure differ in terms of the categories of the society they operate in.

What this notion implies is that legitimacy theory can have varying outcomes when interpreted in different countries, societies, cultures, norms, political structures and other factors affecting business on a macro level. A domestic example of legitimacy theory in view to the above notion is that Malaysian PLCs tend to incur a different influence set, as emphasized by Nik Ahmad et al., 2003. This research tries to explain the legitimacy theory as a supportive determinant to aid in explaining CSR disclosure practices among Malaysia PLCs while referring to the study by Hackston and Milne (1996) on the connection between firm size and CSR disclosure practice This theory would be plausible to help the research to find the present and future trends of Malaysian PLCs towards CSR disclosure on environmental, societal and public aspects, using the help of firms' annual reports.

4. 3 Stakeholder Agency Theory

Farook and Lanis (2005) stated that a lots of shareholders can have an undue influence onto a company, as set out by the political economic theory assumption. Stakeholders/shareholders are “ all parties that are directly or indirectly affected by companies’ decisions and actions” (Freeman, 1994). The main idea in this theory is that shareholders are the primary providers of the means capable of influencing corporate strategies. Stakeholders are therefore vital to a company’s sustainability. Freeman (1984) advocates CSR disclosure using stakeholder theory, which puts great expectations and responsibilities to firms. The theory is relevant since it stresses on the inclusion of ethics and ensuring fairness and equality among stakeholders. He also said that shareholders are usually treated as simple entities; their ethics, social responsibilities and preferences ignored since they’re beyond firm interests.

Companies exist and usually operate inside a hierarchy or bigger external networks which include a mix of stakeholders with desires on firms as set out in the political economic framework. In a different viewpoint, firms nowadays are forced to deal with and report to various shareholders as shown by the modern day portfolio concept, which explains how investors can use diversification to optimize their portfolios, hence reducing systematic/market risk on their investment (Markowitz, 1952). In conclusion, firms nowadays are owned by parties in which public accountability is vital. Recently, firms face great pressure not only from primary stakeholders but also secondary stakeholders; NGOs, societies, mass media, governments, and the likes that usually require firms to perform CSR disclosure.

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Some corporations hold sessions known as shareholder dialogues since they value shareholders' general perceptions and their overall interactions with the company (O'Riordan and Fairbrass, 2008). A firm's ultimate survival therefore lies on its stakeholders. Its understandable now why CSR reports are also called sustainability reports. Hence, the stakeholder theory is a binding concept in view of CSR disclosure.

4. 4 Institutional Theory

Institutionalization refers to how an institution is made. The key areas of this concept state that in reality, institutionalisation is a social construction developed by human interaction, in which Sewell (1992) described as a reciprocal process in which institutions and actions simultaneously constrain and enable each another. Institutions constrain actions, bound rationality and set the chances of certain behaviours (Barley & Tolbert, 1997), leading to modified institutions; the process is endless. Giddens (1979, 70) stated advocates a process of organizational convergence (Dacin, 1997). Many companies nowadays are influence by others that undertake CSR disclosure. They tend to follow the trend of competitive firms. ' When applied in the context of CSR, institutionalization theory explains why corporations undertake CSR activities due to inherent aspects made in the past to encourage CSR disclosure. The theory advocates a process of organizational convergence (Dacin, 1997). Many companies nowadays are influence by others that undertake CSR disclosure. They tend to follow the trend of competitive firms. The theory also advocates prudence in CSR disclosure to attain certain objectives.

The aim is to shift the focus of the public to desirable information or to move it away from ethically unsound practices (Elsbach and Sutton, 1992).

Concluding from this proposition, the theory advocates that CSR disclosure may be an imaginative exploitation used by corporations to lie to the public.

In this study, this theory is seen in place of one more variation under the political-economy based theories mentioned above. Together with the legitimacy theory, this theory supports CSR disclosure stating that firms will perform CSR disclosure so as to achieve legitimacy in the public's perception. The institutional theory used here aims to identify corporate features in CSR disclosure among Malaysian PLCs.

This theory doesn't only respond to market forces but also to external forces.

Most CSR literature avoids institutional situations that affect firms' CSR disclosure (Campbell, 2004). It's seen that most studies identifying CSR institutional determinants are constrained to the financial performance feature (e. g Brown and Perry, 1994; Waddock and Graves, 1997) The key areas of this concept state that in reality, institutionalisation is a social construction developed by human interaction. These researches explained the effect on the range of CSR disclosure among Malaysian PLCs of institutional structure and firm specific aspects. With reference to the above studies, and also a framework for explanation this particular study is formed on the basis that more frameworks used to make a more detailed model.

5. Summary

This section gives a literature review that is used and transferred to find a suitable dimension to explain the level of CSR disclosure practise as

influenced by a certain number of company aspects. It gives a framework of recognizing CSR and the study deeply goes into establishing a multiple regression model to attain the objectives of the study. Theoretical dimensions in this case act as a reference point and an expectation of how the outcomes of this study would become, and also a framework for explanation. The study will now move onto chapter 3 on research methodology employed.