

## **The Study on the Factors that Influence Companies' Corporate Social Responsibility Disclosures in Malaysia**

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### **Abstract**

Corporate Social Responsibility (CSR) has been perceived as an indispensable ingredient for a company to flourish. Amid the growing recognition and worldwide pressure for greater CSR practices, businesses should acknowledge and indorse them into their organisation practices. Nevertheless, in current emerging market, some factors might motivate the acceptance of CSR as element of their corporate strategy. This study explores the extent of Corporate Social Responsibility disclosures (CSR D) in the annual reports of the public listed companies (PLCs) in the Bursa Malaysia. The objectives of this study are to examine the extent of CSR disclosures and to determine the factors that influence the extent of CSR D. Thus, several variables that can affect the CSR D will be tested. This study utilised content analysis methodology, for the purpose of data collection. Finally, it is argued that the findings from this study can be helpful to interested parties in gaining a deeper understanding of CSR D and its determinants in Malaysia as a whole.

**Keywords:** Corporate Social Responsibility disclosures, Annual reports, Public listed companies, Bursa Malaysia.

### **Introduction**

Corporate Social Responsibility (CSR) has been perceived as an indispensable ingredient for a company to flourish. Amid the growing recognition and worldwide pressure for greater CSR practices, businesses should acknowledge and indorse them into their organisation practices. Nevertheless, in current emerging market, some factors might motivate the acceptance of CSR as element of their corporate strategy. This study explores the extent of Corporate Social This study explores the extent of Corporate Social Responsibility disclosures (CSR D) in the annual reports of the public listed companies (PLCs) in the Bursa Malaysia. Commonly, companies only inform their business activities in financial reports to their two major stakeholders, namely the shareholders and investors. The main goal of this type of reporting is the overall performance of the company. As a result of public pressure and raising awareness on environmental and social responsibility issues, companies began reporting on economic, social and environmental issues. Over the last three decades, the idea of being socially responsible to the community is getting much footing (Shinde et al., 2011). This new type of reporting is known as corporate social responsibility reporting (CSRR) or corporate social responsibility disclosure (CSR D) (Cerin, 2002). As such, the objective of this study is the to find out those factors which are positively associated with the CSR D in Malaysian.

In this study, we will be testing four hypotheses which are:

*H1: The extent of CSRD will be positively related to the proportion of Malays directors on the board.*

*H2: The extent of CSRD will be greater if the Audit Committee is chaired by Malay.*

*H3: The extent of CSRD will be positively related to the presence of ISO14000 certification.*

*H4: The extent of CSRD will be positively related to the investment in Shariah Committee.*

*H5: The extent of CSRD will be positively related to Dependence on Government.*

*H6: The extent of CSRD will be positively related to the investment in Brand Image.*

The rest of the paper is organised as follows. It begins with introduction and hypothesis development. The paper continues with discussion on research methods. Next, the result is provided. The final section provides the discussion and the conclusion of the paper.

### **Research Methodology**

This study is carried out among the Malaysian PLC; data for this study was obtained from secondary sources comprising of 347 companies listed in Bursa Malaysia. As in the case with most studies on CSR disclosures, a content analysis approach is used (see, for example, Abbott & Monsen, 1979; Belal, 2001; Imam, 2000). Content analysis of annual reports is a well-established technique and held to be empirically valid in studies of voluntary disclosure and CSR research (Abbott & Monsen, 1979; Gray, Kouhy & Lavers, 1995a; Guthrie & Parker, 1990; Guthrie, Petty, Yongvanich & Ricceri, 2004).

The dependent variable (CSRD) is based on the number of pages. Scholars such as Gray, Kouhy and Lavers (1995b), Guthrie and Mathews (1985), Neimark (1983), Parker (1986) suggested using the method of counting pages. They argued that the number of pages is echoed to the amount of total space given to a subject and indicating the significance of that subject. Practically, pages are also simpler, more reliable, and consistent unit to measure by hand (Gray et al., 1995b; Guthrie & Parker, 1989, 1990). While, the independent variables and their measurement are shown in Table 1 below:

**Table 1: The independent variables and measurement**

No	Variable	Measurement
1.	Audit Committee dominated by Malay directors	The proportion of Malay directors to total directors on the audit committee
2.	The ethnicity of the Audit Committee's Chairperson	If the company Chairperson is a Malay or not - Dichotomous
3.	ISO 14000 Certification	If a company has implemented ISO14000 certification-Dichotomous
4.	Investment in Shariah Committee	If a company has established a shariah committee-Dichotomous
5	Dependence on Government	If a company receives major government project, tender, privatisation project, or concession - Dichotomous
6	Investment in Brand Image	If a company has highlighted promotion its annual report -Dichotomous

## Results

Table 2 presents the multivariate results using multiple regression for our sample companies:

**Table 2: Multiple Regression (N=347)**

Variable and Predicted Sign	Regression	VIF	t-value	p-value
ACMalC (+)	0.120	1.694	0.401	0.344
ACMalCh (+)	-0.262	1.549	-1.472	0.071
ISO14000 (+)	1.027	1.037	5.859	0.000
ShCom (+)	1.045	1.106	3.040	0.001
DepGov (+)	0.207	1.130	1.031	0.151
BrdImg (+)	0.644	1.107	3.730	0.000
Summary Statistics:				
Intercept	-4.804			
R2	0.177			
Adjusted R2	0.162			
F-Test	12.149***			

\*, \*\*, \*\*\* = Significant at the 10%, 5% and 1% level respectively using a two tailed test

The regression results for our model of CSRD are shown in Table 3 above. The F-test (F-test = 12.149,  $p < 0.001$ ) indicates that the model is sufficiently robust. The adjusted R-squared of 16.2% suggest that the model has some reasonable explanatory power. The VIF values (none exceeds 10.000) suggest that multicollinearity is not an issue in interpreting the regression results.

All the independent variables except for ACMalCh (ACMalCh, ACMalC, ISO14000, ShCom, DepGov and BrdImg) showed association with CSRD in the predicted directions. Of these ISO14000, ShCom and BrdImg are highly significant at the 1% level. While, ACMalCh, ACMalC and DepGov are found to be not statistically significant. The result of the tested hypotheses is shown in Table 3 below:

**Table 3: Result of the Tested Hypotheses**

No	Hypothesis	Findings
H1	The extent of CSRD will be positively related to the proportion of Malays directors on the board.	Not Supported
H2	The extent of CSRD will be greater if the Audit Committee is chaired by Malay.	Not Supported
H3	The extent of CSRD will be positively related to the presence of ISO14000 certification.	Supported
H4	The extent of CSRD will be positively related to the investment in Shariah Committee.	Supported
H5	The extent of CSRD will be positively related to Dependence on Government.	Not Supported
H6	The extent of CSRD will be positively related to the investment in Brand Image.	Supported

## Discussion and Conclusion

Results based on the full regression model with six variables indicated that only three variables, ISO 14000 Certification, the Investment in Shariah Committee and Investment in Brand Image are associated with the extent of CSR. The three other predictive variables, Audit Committee dominated by Malay directors, the ethnicity of the Audit Committee's Chairperson and Dependence on Government, however, were found to be insignificant when regression analyses are performed.

The findings indicate that ISO certification plays a significant role in influencing the extent of CSR. This is a future evidence that certified ISO 14000 are those companies that actively involved in the social and environmental activities. The result also shows that the existence of shariah committee will improve the extent of CSR. The promotion of Shariah requirements by the Shariah Committee will alleviate the concept of social accountability, thus, in turn will promote and support CSR activities and full disclosure. According to Hoeffler and Keller (2002), and Varadarajan (1992), any companies that lay emphasis on the strategy of investment in brand image, CSR presents an opening to build corporate image or brand image, thus, in turn will promote and support CSR activities and full disclosure.

The results of the study should be construed in light of some limitations. Firstly, the data that was examined in this study was for one year of data. Thus, it would be interesting to perform a longitudinal study on yearly basis as it may help to trace the trend of CSR. Secondly, the study only covers on the quantity of CSR. In future research, it would be beneficial to look into quality of CSR.

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