Frontiers of Business, Management and Economics

An Interdisciplinary Collection of Managerial Research Findings and Breakthroughs
FRONTIERS OF BUSINESS, MANAGEMENT AND ECONOMICS
An Interdisciplinary Collection of Managerial Research Findings and Breakthroughs

Edited by
Mehran Nejati

Universal-Publishers
Boca Raton
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Corporate Social Responsibility Reporting (CSRR) in Malaysia: The Impact of CSRR Regulation

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Abstract
The importance of corporate social responsibility reporting (CSRR) has been evident in Malaysia, particularly after the Bursa Malaysia (formerly known as Kuala Lumpur Stock Exchange, KLSE) mandated its reporting in firms’ annual reports from year 2007 onwards. This study examines the level of CSRR disclosed in firms’ annual reports over a five-year period (from 2005-2009), reflecting both voluntary (2005-2006) and mandatory (2007-2009) period of CSRR. It investigates the influence of CSRR regulation on the level of CSRR disclosed. Based on a sample of large firms in Malaysia, it is found that the level of CSRR increases over the five-year period, especially in year 2007 (the first year CSRR regulation implemented in Malaysia). Results from the regression analysis also indicate CSRR regulation as one of the important determinants of CSRR, along with firm size, profitability and leverage. Overall, findings of the study demonstrate the importance of CSRR regulation in driving CSRR of a country. Nevertheless, proper enforcement is needed to ensure the effectiveness of the regulation.

Key words: Corporate social responsibility reporting, longitudinal analysis, CSRR Regulation, Malaysia.

1. Introduction

The body of literature in the field of corporate social responsibility (CSR) has been increasing in the past few decades thus indicating to a certain extent the importance of CSR [11,23,25]. While most of the extant literature offers insights mainly from the perspective of developed countries, contributions from the perspective of developing countries remains limited [5]. Being aware that the developing countries are also confronted with the widespread social and environmental challenges resulted from rapid economic development, explosive population growth and urbanization process, more research efforts are warranted in these countries. The CSR agenda set in the developing countries are also collectively quite different from those faced in the developed countries [4,10,28], requiring specific attention to be placed on CSR in the developing countries.

Malaysia, being one of the developing countries, is not without its share of social (e.g. corporate misconduct, corruption [24,31]) and environmental problems (e.g. climate change, environmental degradation, disruption of ecological diversity, depletion of non-renewable natural resources and extinction of wildlife species [16,17]). These problems raise the importance of extending firms’ accountability to all stakeholders and acting in a socially responsible manner in all areas of business activities [7].

To demonstrate commitments of firms towards these broader responsibilities, there are the needs for establishing social and environmental reporting by firms, which this paper terms as corporate social responsibility reporting (CSRR).

2. Literature Review

CRSR encompasses both the voluntary and mandatory reporting made by firms regarding issues that are important to a wide range of stakeholders, covering more than solely economic concern [12,18]. Prior literature has demonstrated an upward trend of CSRR made by firms [12,26,30] as a result of growing public pressure and coverage in the mass media on various CSR issues. In Malaysia, even though a similar pattern of reporting is apparent [0,27], a number of researchers argue on the low level of CSR among Malaysian firms and claim that Malaysia is still in its infancy CSR [0,22,29]. Perhaps, the current stage of CSR in Malaysia can be improved through development of appropriate reporting guidelines and enforcement of relevant reporting regulations to enable firms discharge their broader responsibility to the society.

As documented in the existing CSR literature, the imposition of the mandatory CSR requirements may have effect on the CSRR disclosed by firms [21]. Evidences from the U.K., Spain and Norway dictated that although the number of reporting firms and the quantity and quality of CSRR increase following the regulation, there has still been lack of reporting made by several firms in the presence of such regulations [3,9,20]. Malaysia is categorized as an Asian country with a relatively high level of secrecy and statutory control [13]. In other words, there is less incentive for firms in Malaysia to become transparent through greater voluntary CSR but it is more likely to comply with the CSRR regulation imposed on them.

Following the introduction of CSR regulation in Malaysia with effect from year 2007 onwards [22], there is a need to explore the effect of such reporting regulation on the level of CSRR disclosed by firms. Such findings may provide valuable inputs for regulatory authorities on the effectiveness of the reporting regulation. They may also inform both firms and stakeholders on the influence of reporting regulation on CSRR. Overall, these findings offer a benchmark for CSR development in Malaysia.
3. Methods

Sample firms of this study include firms that are listed on the Main board of Bursa Malaysia that maintained their positions in top 300 firms (by market capitalisation) over the five-year period (from 2005 to 2009). These large firms tend to have greater public visibility and impact on society, thus they are more likely to use CSRR to respond to the public pressures [6]. The representation of sample for each year (from year 2005-2009) is more than 75% of market capitalisation of all firms listed in the Main Board of Bursa Malaysia. Refer Table 1 for the detailed sampling procedure.

Table 1. Sampling procedure

<table>
<thead>
<tr>
<th>Sampling procedures</th>
<th>No. of firms (per year)</th>
<th>No. of firm-year observation (from 2005-2009)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firms that are positioned in Top 300 firms (by market capitalisation) for the five-year period (from 2005 to 2009).</td>
<td>300</td>
<td>1500</td>
</tr>
<tr>
<td>Firms that have not maintained their position in top 300 firms (by market capitalisation) for the five-year period (from 2005 to 2009).</td>
<td>120</td>
<td>600</td>
</tr>
<tr>
<td>Final Sample</td>
<td>180</td>
<td>900</td>
</tr>
</tbody>
</table>

Content analysis is used to examine CSRR in the annual reports, whereby a piece of writing is codified into various categories to derive quantitative scales of varying levels of complexity [1]. The level of CSRR disclosed is measured based on a research instrument (a CSRR checklist) that includes 5 categories of CSRR (environmental, community, workplace, marketplace and others) [0]. The development of the CSRR checklist is based on the checklists employed by previous CSRR research [14] and reflects the development of CSRR, particularly in Malaysia [0,15,27]. The checklist has undergone face validation and pilot test before being used to test a larger sample of this study. One researcher coded all of the annual reports based on a set of basic coding rules that is constructed to ensure reliability and validity [15]. Manual search of CSR-related sentences is conducted throughout all sections of the annual reports. Table 2 summarises the research variables used in this study. Other than CSRR regulation, several important determinants of CSRR (e.g. firm size, profitability, leverage and industry) as evidenced in the extant CSRR literature is also included in the regression analysis.

Table 2. Measurements of Research Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Acronym</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSRR</td>
<td>CSRRQN</td>
<td>Number of sentences related to each item in the CSRR checklist.</td>
</tr>
<tr>
<td>Independent variables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSRR Regulation</td>
<td>REG</td>
<td>Dichotomous with 1 for firm-year observations in year 2007, 2008 and 2009, and 0 for year 2005 and 2006</td>
</tr>
<tr>
<td>Firm size</td>
<td>SIZE</td>
<td>Natural log of total assets</td>
</tr>
<tr>
<td>Profitability</td>
<td>ROA</td>
<td>Return on Asset</td>
</tr>
<tr>
<td>Industry</td>
<td>IND</td>
<td>Dichotomous with 1 if the firm is classified as high profile firm and 0 if the firm is classified as low profile firm</td>
</tr>
<tr>
<td>Leverage</td>
<td>LEV</td>
<td>Total debt to total assets</td>
</tr>
</tbody>
</table>

The following hypotheses are developed:

H1: Firms disclose a higher level of CSRR in the presence of CSRR regulation.
H2: Larger firms disclose a higher level of CSRR.
H3: Profitable firms disclose a higher level of CSRR.
H4: Firms with higher leverage disclose a higher level of CSRR.
H5: Firms in high profile industry disclose a higher level of CSRR.

All the assumptions of the regression analysis (normality, multicollinearity, linearity and homoscedasticity) are met before the analysis is performed.

4. Discussion and Conclusion

Table 3 presents the descriptive analysis of CSRR over the five-year period (2005 to 2009). Generally, the level of CSRR disclosed increases over the five-year period as indicated by the increasing mean of the total CSRR (from 56.61 to 116.30) and each dimension of CSRR. This may reflects the growing awareness of the involvements of firms in society. The highest mean difference for each dimension of CSRR is in year 2007 (with exception of marketplace, which produces the highest mean difference in year 2008) that is the first year CSRR was made mandatory in Malaysia (see the shaded boxes in Table 3). The finding indicates a positive reaction of firms to the reporting regulation imposed by the Bursa Malaysia.

Nevertheless, firms were seen to be selective in choosing the CSRR’s items of interest. For example, there were firms who chose not to report their environment- and community-related activities or information to the stakeholders, in spite of the mandatory CSRR requirement (min. number of CSRR sentence=0, see Table 3). Perhaps, the lack of requirement for firms to involve in and disclose all the five dimensions of CSRR in the annual reports may explain the selective reporting
attitude by firms. It may also signify the use of CSR as a mechanism for firms to legitimate their existence and maintain good reputation in the eyes of selected stakeholders that are considered important for the firms' survival.

Rather than addressing the interests of all stakeholders, firms tend to manage the demand of selected stakeholders' group that directly impacted the firms' operations. For example, firms are more likely to fulfill the interest of important stakeholders such as shareholders and employees. This scenario is apparent when all sample-firms did provide minimum reporting information over the five-year period (min. number of CSR sentence). Greater emphasis was placed on employees and market players rather than the community and the environment. Employees, which represent an important internal stakeholders' group of firms were given the priority in firms' CSR activities, consistent with evidences revealed in the extant CSR research [12,14,15,26,29].

Table 3. Descriptive Statistics of CSRR

<table>
<thead>
<tr>
<th>CSRR Dimension</th>
<th>Year</th>
<th>Mean</th>
<th>Mean Diff</th>
<th>SD</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td>2005</td>
<td>6.367</td>
<td>14.91</td>
<td>0</td>
<td>109</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>8.556</td>
<td>2.189</td>
<td>17.19</td>
<td>0</td>
<td>109</td>
</tr>
<tr>
<td></td>
<td>2007</td>
<td>12.144</td>
<td>3.588</td>
<td>20.62</td>
<td>0</td>
<td>148</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>14.561</td>
<td>2.417</td>
<td>22.01</td>
<td>0</td>
<td>134</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>17.578</td>
<td>3.017</td>
<td>27.38</td>
<td>0</td>
<td>179</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>14.361</td>
<td>16.91</td>
<td>0</td>
<td>101</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2011</td>
<td>14.778</td>
<td>4.356</td>
<td>21.69</td>
<td>0</td>
<td>140</td>
</tr>
<tr>
<td></td>
<td>2007</td>
<td>20.661</td>
<td>5.883</td>
<td>24.19</td>
<td>0</td>
<td>150</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>24.994</td>
<td>4.333</td>
<td>29.83</td>
<td>0</td>
<td>206</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>25.933</td>
<td>0.939</td>
<td>27.23</td>
<td>0</td>
<td>134</td>
</tr>
<tr>
<td>Community</td>
<td>2005</td>
<td>14.478</td>
<td>23.52</td>
<td>1</td>
<td>130</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>16.617</td>
<td>2.139</td>
<td>25.58</td>
<td>1</td>
<td>143</td>
</tr>
<tr>
<td></td>
<td>2007</td>
<td>22.394</td>
<td>5.777</td>
<td>32.07</td>
<td>1</td>
<td>224</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>27.061</td>
<td>4.667</td>
<td>39.70</td>
<td>1</td>
<td>232</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>28.967</td>
<td>1.906</td>
<td>43.46</td>
<td>1</td>
<td>242</td>
</tr>
<tr>
<td>Workplace</td>
<td>2005</td>
<td>23.283</td>
<td>28.94</td>
<td>4</td>
<td>246</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>25.761</td>
<td>2.478</td>
<td>32.58</td>
<td>5</td>
<td>226</td>
</tr>
<tr>
<td></td>
<td>2007</td>
<td>29.639</td>
<td>3.878</td>
<td>36.06</td>
<td>5</td>
<td>286</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>34.528</td>
<td>4.889</td>
<td>42.23</td>
<td>5</td>
<td>287</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>35.867</td>
<td>1.339</td>
<td>46.77</td>
<td>5</td>
<td>302</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>2.061</td>
<td>4.50</td>
<td>0</td>
<td>32</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>3.922</td>
<td>1.861</td>
<td>7.40</td>
<td>0</td>
<td>55</td>
</tr>
<tr>
<td></td>
<td>2007</td>
<td>7.278</td>
<td>3.256</td>
<td>12.64</td>
<td>0</td>
<td>115</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>7.806</td>
<td>0.528</td>
<td>12.65</td>
<td>0</td>
<td>136</td>
</tr>
</tbody>
</table>

Total | 2009 | 7.956 | 0.150 | 13.09 | 0  | 133 |
|      | 2005 | 56.611| 72.21 | 5  | 396 |
|      | 2006 | 69.633| 13.02 | 89.24 | 6  | 562 |
|      | 2007 | 92.117| 22.48 | 104.41 | 6  | 716 |
|      | 2008 | 108.95| 16.83 | 123.63 | 9  | 714 |
|      | 2009 | 116.30| 7.350 | 133.81 | 9  | 758 |

As shown in Table 3, firms tend to disclose a greater amount of marketplace-related information (e.g. corporate governance, stakeholder engagement, customer relation) and workplace-related information (e.g. employee appreciation, human capital development, employee health and safety) compared to community-related information (e.g. charity, education, community and infrastructure support) and environment-related information (e.g. resource conservation and waste management, pollution control/abatement, environmental conservation and repairs).

Out of five dimensions of CSR, 'marketplace' dimension produces the highest level of reporting (with mean ranges from 23.28 to 35.86), followed by 'workplace' (with mean ranges from 14.47 to 28.96), 'community' (with mean ranges from 10.42 to 25.93), 'environment' (with mean ranges from 6.38 to 17.57) and 'others' dimension of CSR (with mean ranges from 2.06 to 7.96). The inclusion of 'others' dimension of CSR is to capture firms' other commitment statements to CSR that is not included in the other four dimensions of CSR, for examples, information regarding CSR performance, policy and development.

Next, to examine the impact of CSR regulation on the level of CSR disclosed by firms in Malaysia, the following model is tested in the regression analysis:

$$CSRR = \beta_0 + \beta_1 REG + \beta_2 SIZE + \beta_3 ROA + \beta_4 LEV + \beta_5 IND + \epsilon$$

Results from the regression analysis indicate the influence of CSR regulation (H1) and firm-specific characteristics such as firm size (H2), profitability (H3) and leverage (H4) (all with p-value of 0.01) on CSRR disclosed. No association found between industry (H4) and the level of CSR disclosed.

Table 4. Multiple Regression Analysis

<table>
<thead>
<tr>
<th></th>
<th>Coefficients</th>
<th>t-statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>0.358</td>
<td>8.369**</td>
</tr>
<tr>
<td>SIZE</td>
<td>0.278</td>
<td>8.436**</td>
</tr>
<tr>
<td>ROA</td>
<td>0.085</td>
<td>2.518**</td>
</tr>
<tr>
<td>IND</td>
<td>-0.049</td>
<td>-1.102</td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>0.266</td>
<td></td>
</tr>
<tr>
<td>F-Value</td>
<td>66.190**</td>
<td></td>
</tr>
</tbody>
</table>
In summary, this study provides support for H1, H2, H3 and H4. Findings from the analysis demonstrate the importance of CSRR regulation as one of the determinant of CSRR. Nevertheless, the implementation of such regulation should be accompanied by proper enforcement and continuous evaluation as to ensure the relevance and effectiveness of the regulation over time. Overall, this study contributes to the limited literature that examined CSRR in a regulatory regime. It highlights the significant role of CSRR regulation in shaping the development of CSRR, particularly in one developing country and emerging market that is Malaysia.

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