

Corporate Social Responsibility (CSR) Disclosure in Consumer Products and Plantation Industry in Malaysia

Ibrahim Tamby Chek (Ed.D)

Department of Accounting and Finance, Faculty of Management and Economics
Universiti Pendidikan Sultan Idris
35900 Tanjung Malim
Perak, Malaysia.

Zam Zuriyati Bt Mohamad

Faculty of Business and Finance,
University Tuanku Abdul Rahman Perak Campus,
Jalan Universiti, Bandar Barat
31900 Kampar, Perak.

Jamal @ Nordin Yunus (PhD.)

Department of Management and Leadership, Faculty of Management and Economics
Universiti Pendidikan Sultan Idris
35900 Tanjung Malim
Perak, Malaysia.

Norlia Mat Norwani (PhD.)

Department of Accounting and Finance, Faculty of Management and Economics
Universiti Pendidikan Sultan Idris,
35900 Tanjung Malim Perak
Malaysia.

Abstract

This paper was produced with regards to the importance of Corporate Social Responsibility (CSR) disclosure in Malaysia. The objectives are twofold and focus on consumer products and plantation industry. The first objective is to examine the level of CSR disclosure and second, is to ascertain whether size, profitability and leverage of the company correlate with the level of CSR disclosure. For the purpose of data collection, this study used annual report of one hundred and twenty consumer products and thirty four plantation companies listed in Bursa Malaysia. The data was analyzed using content analysis and Pearson correlation. Although many companies disclosed their CSR activities, the level of disclosures are still low. The findings revealed that size of the companies was correlated with the level of disclosure while leverage showed non correlation result and profitability showed a mixed result. It implied that larger and higher income companies disclosed higher level of CSR disclosure. The results were particularly important not only for authorities to improve the CSR disclosure in consumer products and plantation industries but also for the company itself to develop their CSR disclosure.

Key Words: Corporate social responsibility, environmental information, profitability, leverage, consumer products, and Bursa Malaysia.

Introduction

Over the last few decades there has been a growing public awareness on the role of corporations in society (Reverte, 2009). Evidences exist that investors see social and environmental information as very important in making investment decisions and hence demand adequate disclosure of such information (Yekinni, 2008). In this century, stakeholders not only looking into the profit numbers that the company's earn but also questioning what is the company's contribution towards the society. To answer such question, the necessity to disclose the company's Corporate Social Responsibility (CSR) became an agenda in many corporations.

In addition, the shock of business scandals such as Enron, WorldCom and Parmalat, together with the impact of climate change on the environment, have been the tipping points that have pushed many businesses into a fundamental rethink about their responsibilities towards their various stakeholders (Sibelhorn and Warren, 2007). Recognizing the importance of this issue, several countries take a proactive action in adapting the CSR disclosure such as Australia with its Public Environmental Reporting Framework 2000 and in South Africa with The King Report on Corporate Governance (King II) introduced in March 2002. Other countries for example Norway, Denmark, Belgium, France, the Netherlands, Japan, Hong Kong and Canada have made sustainability reporting mandatory especially concerning natural environmental. Many international public accounting firms have also established a sustainability division to provide accounting services to clients seeking to undertake CSR reporting, and many government departments and business groups have developed 'best practice' manuals on sustainability reporting (Lee, Faff and Smith, 2009).

In Malaysia, with effect from 31 December 2007, the Listing Requirements of Bursa Malaysia (Appendix 9C, Part A, paragraph 29) requires all Malaysian public listed companies to disclose a description of the CSR activities or practices undertaken by the listed issuer and its subsidiaries or, if there are none, a statement to that effect. The development of CSR in Malaysia has, over time, moved to the higher levels and Malaysia is recognized as being among the most active emerging economies in relation to the corporate responsibility (Norhayah and Azlan, 2006). It is proven from various governmental and non-governmental efforts in creating awareness and provides initiatives to public listed and private companies to align their business objectives with CSR concerns (Goi and Yong, 2009). The innovative research project conducted by CSR Asia Business Barometer in 2008; to understand the state of CSR disclosure for twenty largest companies in Hong Kong, Malaysia, Singapore and Thailand found that Malaysia was at the second place in terms of reporting and communicating CSR (CSR Asia, 2008). Growing interest of CSR disclosure in Malaysia also can be observed in the record number of entries for 2005 ACCA Malaysian Environmental and Social Reporting Awards (MESRA) whereby upward trends is likely to continue judging by the increasing number of companies disclosing their social and environmental performance (Tay, 2007).

The needs to disclose CSR activities have been attracting the attention not only to marketplace but persuade researches from all disciplines such as economics, management, laws, sociality and philosophy to explore in this field. The research on the level of CSR disclosure in Malaysia was studied by Hasnah, Sofri, Chambers, Sharon, and Ishak, (2004). They examine the level of corporate social disclosure among Malaysian listed companies during the period of recession of financial crisis and also during the pre and post financial crisis periods. In their study, the disclosures on corporate social responsibility were found primarily in chairman's reports and the result showed that the highest level of disclosure was in 1998 with the human resource theme received the greatest amount of disclosure.

Another research by Mustaffa and Tamoi (2006), examined the social and environmental disclosures of thirty seven construction companies listed on Malaysian Stock Exchange from 1998 to 2002. The main objective of their research was to investigate the extent to which Malaysian construction companies disclosed social and environmental information and to find out whether the amount of disclosure had relationship with the company's characteristics; size, profitability, leverage, and audit firm. The result provides strong evidence that total corporate social disclosure is positively related to companies' size and profitability. Trend analysis of data further confirms that construction companies especially company whose majority owned by 'corporate owner' in Malaysia are aware of their social responsibility but still at low level (Mustaffa and Tamoi, 2006). Finally the result of the study rejects the assumption that total CSR disclosure is related to audit firm and reveals that there exists no strong evidence to support the relationship between total disclosure and leverage.

Nik Nazli, Maliah, and Dodik (2003) also contributed to the literature of CSR disclosure study in Malaysia. Their paper focused on corporate social responsibility (CSR) disclosures made by ninety eight listed companies, across industries with the objective to examine the incidence of CSR disclosures in annual reports. Findings from the study suggested that the disclosures had a public-relations bias, with a very general, 'good news' type of disclosures being the norm and quantitative or monetary disclosures, as well as 'bad news' disclosures were minimal. Research by Azlan and Susela (2008) investigated the influence of the government and foreign affiliates, particularly; multinational companies on corporate social reporting development in an economy.

The study found that there was government influence on the levels of CSR disclosure but the impact of foreign affiliation variables was not evident. The study also indicated that the institutionalization of the government's aspirations and commitment corporate social reporting was perhaps the most appropriate description for Malaysian CSR disclosure practice. Those previous literatures create a new dimension in CSR disclosure research. It assists in the development and improvement of CSR disclosure practice. However, this study was conducted subsequent to the importance and current wave of CSR disclosure in the Malaysian's companies. The objectives are twofold; to examine the level of CSR disclosure and to ascertain whether size, profitability and leverage correlate with the level of CSR disclosure. The second objective constitutes the basis for establishing the following hypotheses:

H₀1: There is no significant relationship between firms' size and level of CSR disclosure

H₀2: There is no significant relationship between firms' profitability and level of CSR disclosure

H₀3: There is no significant relationship between firms' leverage and level of CSR disclosure

Therefore this study was conducted to specifically focus on the CSR of consumer product and plantation industries only. The selection of these industries was due to their direct relationship with the society and environment. Furthermore, there was no research on CSR disclosure has been focused on these industries previously.

Methodology

This quantitative study involved the examination of annual reports for consumer product and plantation industry in the main market of Bursa Malaysia. The reason for selecting companies listed in Bursa Malaysia was that these companies are required to disclose their CSR activities in their annual reports. The annual reports for the financial year ended 2009 of selected industries were downloaded from the Bursa Malaysia website. Financial year ended 2009 was selected since it is the latest annual report available at the date this study was conducted. The initial sample in this study consists of one hundred thirty eight and forty eight companies for consumer product and plantation industries respectively. From the sample, eighteen (13.05 percent) consumer products companies and fourteen (29.16 percent) plantation companies has been excluded. As such, it made up the population to one hundred twenty (86.95 percent) and thirty four (70.84 percent) companies for consumer product and plantation industries respectively.

The annual reports were utilized in this study for a source to collect and gather information because it has its own credibility (Tilt, 1994); the annual report is required to be consistent with the financial statements presented therein and auditors must ensure that material in the annual report is not misleading and does not provide information that will damage the 'true and fair' view of the accounts (Sweeney and Coughlan, 2008). Furthermore the annual report has some clear advantages over other forms of communication (Sweeney and Coughlan, 2008). The annual report was examined and segregated into dichotomous way. A dichotomous system awards one point for a company that discloses the CSR item and zero for non-disclosure i.e., 1 = disclosed; 0 = non-disclosed (Bakhtiar, Maliah and Nik Nazli, 2009). The process of data collection strategy then continues with segregation of the disclosure into "high level of disclosure", "medium level of disclosure" and "low level of disclosure". Table 1 below showed the scale for the three level categories:

Table 1
Scale for Level of CSR Disclosure Category

Level	Total CSR Disclosure (Number of Sentences)
High	More than 41
Medium	21 - 40
Low	1 to 20

Measurement for Dependent Variable

The dependent variable in this study is the total of CSR disclosure in annual report which represented the level of CSR disclosure.

In this study, the measurement for dependent variables was made by counting the number of sentences; because it is likely to provide complete, reliable and meaningful data for further analysis (Milne and Adler, 1999). This measurement is consistent with other studies conducted by Bakhtiar, Maliah and Nik Nazli (2009), Hackston and Milne (1996), Menasa (2010), Mustaffa and Tamoi (2006), and Tilt (1998).

Measurement for Independent Variables

Three independent variables in this study were size of the company, profitability of the company and leverage of the company.

a. Size of the Company: The study used total asset to measure the size of the company and this measurement is consistent with previous research by Arief and Kurnia (2008). The size of the company broadly classified into three categories; less than RM500,000,000 (small), RM500,000,001 to RM1,000,000,000 (medium) and above RM1,000,000,000 (large).

b. Profitability of the Company: The current study used two proxies for profitability which are net income and return on asset (ROA). The selection of these proxies is consistent with the recent research by Menasa (2010) and Reverte (2009) respectively. The net income classified into three categories. For consumer product industry; less than RM20,000,000 (low income), RM20,000,001 to RM40,000,000 (moderate income) and above RM40,000,000 (high income). On the other hand, the classification of plantation industry is; less than RM50,000,000 (low income), RM50,000,001 to RM100,000,000 (moderate income) and above RM100,000,000 (high income).

c. Leverage of the Company: This study used total debt to total equity as a proxy for leverage of the company, the same proxy used by Arief and Kurnia (2008); Riverte (2008); and Siregar and Bachtiar (2010).

Data Analysis

Two types of data analyses used in this study which are content analysis and correlation analysis.

Content Analysis: Content analysis approach was used to achieve the first objective. In content analysis, qualitative information is converted into quantitative measures by counting the number of sentences. This analysis has been used and held to be empirically valid in the CSR literature to evaluate the extent of disclosure (Hackston and Milne, 1996). The validity of the content analysis of annual reports was checked by a matched sample of companies and line by line coding of their social responsibility activity (Bowman, 1984). Three types of reliability have been defined by Krippendorff (2004): stability, reproducibility and accuracy for content analysis.

Pearson Correlation: The data in this study was processed using the Statistical Packages for Social Science (SPSS) program version 17.0 under Pearson correlation approaches to fulfill the second objective of this study which was to ascertain whether the level of CSR disclosure is correlated to size, profitability and leverage of the company.

Results and Discussion

1. The Level of CSR Disclosure in Consumer Products And Plantation Industries:

The findings for number of companies disclose CSR activity is presented in the table below:

Table 2
Number of companies discloses CSR activity

Level of CSR disclosure	Consumer products		Plantation	
	No of company	Percentage	No of company	Percentage
Disclose CSR activities	115	95.83	30	88.24
Non-disclosure CSR activities	5	4.17	4	11.76
Total	120	100.00	34	100.00

The analysis found that one hundred fifteen companies (95.83 percent) disclosed CSR activities and five companies (4.17 percent) of the total sample did not disclose their CSR activities from consumer product. On the other hand, thirty companies (88.24 percent) disclosed CSR activities and four companies (11.76 percent) of the total plantation industry in this study did not disclose their CSR activities under plantation industry. The percentage of the companies that did not disclose CSR activities is low and shows that companies in consumer product and plantation industry are aware of the importance of CSR activities.

Table 3
Number of sentences for CSR activities discloses in annual reports

Descriptive	No of sentences for CSR activities discloses in annual reports	
	Consumer product	Plantation
Maximum	124	58
Average	16	18
Minimum	2	2
Total	1885	636

The total number of sentences disclosed by one hundred twenty consumer product companies and thirty plantation companies is one thousand eight hundred eighty five and six hundred thirty six sentences respectively. The average sentence is sixteen sentences and eighteen sentences for consumer products and plantation companies respectively.

For consumer product industry, the company which has the maximum disclosure disclosed one hundred twenty four sentences. The company that discloses the highest CSR sentences in this industry is Carlsberg Brewery Malaysia Berhad. The companies with the minimum disclosure disclosed two sentences of CSR activity. The companies are Bio Osmo Berhad, Emico Holdings Berhad, Lii Hen Industries Berhad and Multi Sports Holdings Berhad. In the plantation industry, the company which makes the maximum disclosure disclosed fifty eight sentences. The company that discloses the highest CSR sentences in this industry is Sarawak Plantation Berhad. The companies making the minimum disclosure disclosed two sentence of CSR activity. They are Malpac Berhad and MHC Berhad.

Table 4
Number of companies discloses CSR information under categories high, medium, and low

Categories	Consumer products		Plantation	
	No of company	Percentage	No of company	Percentage
High	7	6.09	5	16.67
Medium	19	16.52	8	26.67
Low	89	77.40	17	56.67
Total	115	100.00	30	100.00

The above table showed that the level of CSR disclosure for eighty nine (77.40 percent) consumer product companies is recorded at the low level, nineteen (16.52 percent) at medium level and only seven (6.09 percent) companies at high level. On the other hand for the plantation industry, the level of CSR disclosure for seventeen (56.67 percent) companies is recorded at the low level, eight companies (26.67 percent) at medium level and only five companies (16.67 percent) at the high level.

Hypotheses Tested

There were three independent variables in this study. They were firm's size, profitability and leverage. Size was measured by total asset, profitability was measured by ROA and net income and leverage was measured by total debt to total equity.

2. The Relationship between Firms' Size and Level of CSR Disclosure

Table 5

Relationship between the level of CSR disclosure and firm's size

Relationship between	Pearson Correlation	
	Consumer Product	Plantation
Firms' size and level of CSR disclosure	0.44**	0.46**

**p<0.05

The result showed that there was a moderate correlation between levels of CSR disclosure and size of the companies ($r = 0.44$, $p < 0.05$ for consumer products and $r = 0.46$, $p < 0.05$ for plantation industry). Thus, the hypothesis was rejected. This finding is consistent with the findings of other recent studies (Ayadi (2004), Menasa (2010), and Reverte (2009) which found that company size correlate with the level of CSR activities.

3. The Relationship between Firms' Profitability and Level of CSR Disclosure

Table 6

Relationship between the level of CSR disclosure and firm's profitability

Relationship between	Pearson Correlation	
	Consumer Product	Plantation
Firms' profitability measured by ROA and level of CSR disclosure	0.09	0.18
Firms' profitability measured by income and level of CSR disclosure	0.50**	0.57**

**p<0.05

The findings showed that correlation for firms' profitability measured by ROA is 0.09 and 0.18 for consumer products and plantation industry respectively. It indicates that firms' profitability which proxy by ROA is not significant to the level of CSR disclosure in both industries. This finding concludes that profitability which proxy by ROA showed a non-significant relationship with the level of CSR disclosure (Nazli, 2007).

The second measurement of firm's profitability is income. The result showed that correlation between level of CSR disclosure and firms' profitability measured by income was 0.50 and 0.57 for consumer products and plantation industry respectively. It was significant at $p < 0.05$ with moderate strength of relationship. The finding was consistent with prior study by Menasa (2010). It implies that more profitable company would disclose more social and environmental activities as they generate sufficient funding to finance such programs (Mustaffa and Tamoi, 2006).

4. The Relationship between Firms' Leverage and Level of CSR Disclosure

Table 7

Relationship between the level of CSR disclosure and firm's leverage

Relationship between	Pearson Correlation	
	Consumer Product	Plantation
Firms' leverage and level of CSR disclosure	0.03	0.05

p>0.05

The above finding revealed that correlations were 0.03 and 0.05 for consumer products and plantation industry respectively.

It was not significant and indicates that firms' leverage do not correlate to the level of CSR disclosure in both industries. Thus, the hypothesis was failed to reject. The finding was consistent with the research conducted by Mustaffa and Tamoi (2006). They found that leverage is not the determinant for the company to disclose their CSR activities.

Recommendations

The current study concluded that there are rooms for improvement in CSR disclosure for consumer products and plantation industry. First improvement is the support from the authority. The government should enforce and monitor the CSR disclosure development from time to time. Secondly, the companies itself should take an initiative to improve their CSR disclosure. Companies with low level of CSR disclosure should take the company with higher level of CSR disclosure as an example and guidance to move forward for a better reporting. Using corporation money to solve community issues such as lack of skilled workers and healthcare can improve economic stability and sustainability, thereby providing the corporation a more stable, certain and self-sufficient platform to operate from (Raja Adzrin, Zahn and Tower, 2009). Thirdly, the companies should be encouraged to present their CSR activities to the public. Rewarding the company's effort toward CSR disclosure is one way to promote the CSR disclosure in Malaysia. Fourthly, the improvement needs support from the shareholders. Finally, Education Minister should consider to include the CSR disclosure in their curriculum whether at school level or in higher education to expose student in preparing the CSR disclosure.

Conclusion

The study concluded that the number of companies disclosing the CSR activities was high for both industries. It indicated a development signal for CSR disclosure in Malaysia. The companies in Malaysia have expanded their annual reports beyond the traditional reporting by incorporating elements of environmental, social, product and employee information (Norhayah and Azlan, 2006). This improvement shows that CSR disclosure receive a thumb up signs from the corporations. However, many companies were still at low level category in disclosing their CSR activities. Further, the study concluded that there was a gap between the maximum and minimum number of sentences for CSR disclosure in the annual report.

The study summarized that larger and higher income companies will have higher level of CSR disclosure. Company size has been suggested in several studies as a correlate with the level of corporate social responsibility activity (Ayadi, 2004). According to Nazli (2007), larger companies which arguably are more visible in the public eyes and more politically sensitive disclosed more CSR information perhaps to manage their political costs and legitimize their existence. Additionally he stated that larger companies may also engage in more social activities as part of their image building exercise.

In contrast, leverage and ROA do not correlate with level of CSR disclosure. It implies that debt is not the main influence for CSR disclosure. Companies with high debt financing structure also bear the same responsibility as companies with low debt financing structure in term of disclosing their CSR activities.

References

- Arief, R., & Kurnia, N. W. (2008). The analysis of company characteristic influenced toward CSR disclosure: Empirical Evidence of Manufacturing Companies Listed in JSX. *JAAI*, 12(1), June, 25-35.
- Ayadi, S. D (2004). *Determinants of the corporate decision to disclose stakeholders' reports in France*. 27th annual congress of the European Accounting Association, prague : Czech Republic
- Azlan, A. & Susela, D. (2008). The impact of government and foreign affiliate influence on corporate social reporting: The case of Malaysia. *Managerial Auditing Journal*, 23(4), 386-404
- Bakhtiar, A., Maliah, S. and Nik Nazli, N.A (2009). A Longitudinal Examination Of Environmental Reporting Practices In Malaysia. *Gadjah Mada International Journal of Business*, 11(1), January-April, 37-72
- Bowman, E.H (1984). Content analysis of annual report for corporate strategy and risk. *Interfaces*, 14(1), 61-71
- CSR Asia (2008). The State of CSR Disclosure in Asia 2008. *CSR Asia Business Barometer*, October, 1-35
- Goi, C. L. and Yong, K.H. (2009). Contribution of Public Relations (PR) to Corporate Social Responsibility (CSR): A Review on Malaysia Perspective. *Internal Journal of Marketing Studies*, 1(2), November, 46-49
- Hackston D. & M.J. Milne (1996). Some Determinants of Social and Environmental Disclosures in New Zealand Companies. *Accounting, Auditing and Accountability Journal*, 9(1), 77-108.

- Hasnah, H., Sofri, Y., Chambers, A. Sharon, M., and Ishak, I. (2004). *Level Of Corporate Disclosure In Malaysia*. Paper presented at the Fourth Asia Pacific Interdisciplinary Research in Accounting Conference 4 to 6 July, Singapore
- Holcomb J L, Upchurch R S and Okumus F (2007). Corporate social responsibility: what are top hotel companies reporting?. *International Journal of Contemporary Hospitality Management*, 19(6), 461-475
- Krippendorff, K. (2004). *Content Analysis: An Introduction to its Methodology*, Sage Publications, London.
- Lee, D. D., Faff, R. W, and Smith, K. L. (2009). Revisiting the Vexing Question: Does Superior Corporate Social Performance Lead to Improved Financial Performance? *Australian Journal of Management*, 34 (1), June, 21-49
- Menasa, E (2010). Corporate social responsibility: An exploratory study of the quality and extent of social disclosures by Lebanese commercial banks. *Journal of Applied Accounting Research*, 11(1), 4-23.
- Milne, M.J. and Adler, R.W. (1999). *Exploring the Reliability of Social and Environmental Disclosures Content Analysis*, Department of Accountancy, University of Otago, Dunedin, New Zealand
- Mustaffa, M.Z. and Tamoi, J.(2006). Corporate Social Disclosure (CSD) Of Construction Vompnies In Malaysia. *Malaysian Accounting Review*, 5(1), May, 85-114.
- Nazli A. Mohd Ghazali (2007). Ownership structure and corporate social responsibility disclosure: some Malaysian evidence. *Corporate Governance*, 7(3), 251-266
- Nik Nazli, N.A, Maliah, S. and Dodik, S. (2003). Corporate Social Responsibility: An Analysis Of Annual Reports of KLSE Listed Companies., *IJUM Journal of Economics and Management* 11(1), 1-37
- Norhayah, Z. and Azlan, A. (2006). Realising Corporate Social Responsibility in Malaysia A View from the Accounting Profession. *Journal of Corporate Citizenship*, 24, Winter, 101-114
- Raja Adzrin, R.A, Zahn, M.V. and Tower, G (2009). Corporation Being Barbaric or Heroic with Philanthropy. *Accountant Today*, March, 14-16
- Reverte, C. (2009). Determinants of Corporate Social Responsibility Disclosure Ratings by Spanish Listed Firms. *Journal of Business Ethics*, 88, 351–366
- Silberhorn, D. and Warren, R. C. (2007). Defining corporate social responsibility., A view from big companies in Germany and the UK. *European Business Review*, 19(5), 352-372
- Siregar, S.V. and Bachtiar, Y. (2010). Corporate social reporting: empirical evidence from Indonesia Stock Exchange. *International Journal of Islamic and Middle Eastern Finance and Management*, 3 (3), 241-252
- Sweeney, L. and Coughlan, J. (2008). Do different industries report Corporate Social Responsibility differently? An investigation through the lens of stakeholder theory. *Journal of Marketing Communications*, 14(2), April, 113–124
- Tamoi, J., Joseph, C & Madi, N (2007).The Current State of Corporate Social Responsibility Among Industrial Companies in Malaysia. *Social Responsibility Journal*, 3(3), 9-18
- Tay, K. L. (2007). *Prospects, Trends and Issue of CSR*. seminar on Making a Differences through CSR – Making The Challenges Co-Organised by Securities Commission and The United Nation Development Programme (UNDP), KL
- Tilt C.A., (1994). The Influence of External Pressure Groups on Corporate Social Disclosure: Some Empirical Evidence. *Accounting , Auditing and Accountability Journal*, 7(4), 47-72.
- Tilt, C.A (1998). *The Content And Disclosure Of Corporation Of Corporate Environmental Policies: An Australian Study*. Paper prepared for the Asia Pacific Interdisciplinary Research in Accounting Conference, Osaka City University, August 4-6
- Yekinni, C. O. (2008). *Social and Environmental Reporting: How informative is the disclosure of Community Involvement Cost – Qualitative or Quantitative*. Corporate Responsibility Research Conference Queens University, Belfast. 7th – 9th Sept