



Profitability, Share Return, Company Size, Industry Type and Corporate Social Responsibility Disclosure of Malaysian Public Listed Companies

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Abstract:

Over the years, the awareness of Corporate Social Responsibility (CSR) has been increasing and viewed as an integral part of the business to cater to the increasing expectations for a wide spectrum of stakeholders in pursuing their trade responsibly. The purpose of this article, first, is to determine the extend of Corporate Social Responsibility Disclosure (CSRD) among Malaysian Public Listed Companies (PLCs) and to examine whether profitability, share return, company size and industry type have any influence on the CSRD. Secondary data obtained from 100 public listed companies across industries were analysed and reported in this study. The constructed CSRD checklist was used to identify the focus level of CSRD, while multiple regression is employed to test the proposed hypotheses. The finding indicates that the highest and least disclosures were community and marketplace disclosure, respectively. It also remarks that, the profitability, share return and company size are found to have significant relationships with the CSRD. It also noted that the industry type was not significantly linked to the CSRD. This finding could benefit the government and policy makers to consistently encourage corporates to practice CSR and to place appropriate emphasis awards for those who comply such as tax incentive, CSR awards; special rules exempted or granted government grants. Therefore, the corporations also need to move forward from just a voluntary disclosure to the betterment of nation sustainability.

Keywords: Profitability, Share Return, Company Size, Industry Type, Corporate Social Responsibility, Corporate Social Responsibility Disclosure

1. Introduction

Nowadays, with the current economic trend, emerging trade and aggressive market, the movement towards Corporate Social Responsibility (CSR) and sustainability into their business practices is increasing (Stubbs & Cocklin, 2008; Abdul Hamid & Atan, 2011; Hassan, Yusoff, & Yatim, 2012; Rosli, Said & Fauzi, 2015a; Rosli & Mohd, 2015b). Companies around the world are making significant changes in conducting business to serve a wide spectrum of stakeholders encompassing society, employees and the environment to pursue their trade responsibly. Some of them are increasing the compliance towards certain standards such as ISO 26000, ISO for social responsibility, companies' awareness and interest in sustainability. Corporate Social Responsibility Disclosure (CSRD) deemed to be an essential engagement approach in communicating the desired information as well as demonstrating transparency, accountability and responsible business practices.

In Malaysia, CSR is defined as an open and transparent business practices that are based on ethical values and respect for community, employees, environment, shareholders and other stakeholders (Bursa Malaysia, 2006). The CSRD has been put in place of PLCs reporting in Malaysia since 2007 after the issuance of Bursa Malaysia CSR framework on September 5, 2006 (Abd Rahman, Zain, & Yahaya Al-Haj, 2011). Thus, all Malaysian

Public listed companies (PLCs) have to report their CSR activities in the company's annual report on four focus areas namely marketplace, workplace, community and environment. It tremendously indicates that the reporting is beyond our traditional reporting of the company. In promulgating CSRD among corporation, the Malaysian Government has taken many actions through tax incentives to the businesses that implement CSR programmes. On top of that, CSR practices are incorporated within the government plans, including in the Malaysia Plan, Government-linked Companies' (GLC) Transformation Plan as well as in the national budget. Most importantly, the government has also incorporated CSR as an integral part of the Malaysia's vision 2020 and of the National Integrity Plan (10th Malaysian National Plan). This has remarked a milestone that Malaysia as one of the Southeast Asian leading countries that practices CSR (Williams & Pei, 1999). Comparative research by Nordin, Abdullah, and Abdul Aziz (2012) indicate that Malaysian organisations are highly concerned with CSR practices. Thus, this research intended to determine the extend of CSRD among Malaysian Public Listed Companies (PLCs) and to examine whether profitability, share return, company size and industry type have any relationship on the CSRD.

2. Literature review

CSR has grown over the years, beginning in the late 1950s. The evolution of CSR was due to the development of businesses in meeting the needs of the society and the environment. During that era, CSR is known as social responsibility (SR) and corporate social responsiveness (CSP), yet today it is also called as a corporate responsibility (CR), (Carroll, 1999). In the beginning of the modern era, Carroll (1999) defines CSR as the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action, which are desirable in terms of the objectives, and values of our society (Carroll, 1999). Furthermore, Milne (1996) defined CSR as a recognition on the part of the management of an obligation to the society it serves not only for maximizing the economic performance but for human and constructive social policies as well. For that reason, business is responsible for their decision and actions to the society. Carroll (1999) states that CSR is the responsibility of a business on their decisions and actions to the society. The business responsibilities are economic, legal, ethical, and philanthropic (societal) responsibilities.

In the beginning of the 21st Century, the CSR definition has evolved tremendously. CSR was focused more on integrating the social and environmental concerns and improving the quality of life of the citizens while upright the transparency and accountability. Belkaoui and Karpik (2000) indicate that CSR is an attempt on the measurement and communication of information concerning the effect of business and its activity towards the society and the environment. A number of commissions also made an effort to define CSR. For instance, the European Commission (2015) describes CSR as a voluntary action whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders. On the other hand, World Business Council for Sustainable Development indicates that the business sector is needed to behave ethically and contribute to the economic development while improving the quality of life of the workforce, their families and the local community, as well as the society at large.

In this study, four company characteristics were examined, namely company size, profitability, share return and industry type. Prior research conducted by Rosli *et al.*, (2015a; 2015b), Smith *et al.*, (2007) and Janggu *et al.*, (2007) indicate that, profitability and CSRD are interrelated and positively influence CSRD. Kartadjumena, Abdul Hadi, and Budiana (2011) also indicate that there are positive high correlations of profit and level of CSR disclosure annual reports of companies in manufacturing industries are listed on the Indonesia Capital Market. Choi, Kwak, and Choe (2010) stated that there is a positive and significant relationship between corporate financial performance and the stakeholder weighted CSR index, but not the equal-weighted CSR index. Further, Zhu (2011), in a study of 156 listed companies in Shanghai Stock Exchange in 2008, documented a positive correlation between CSR and corporate profitability. Thus, the first hypothesis (H1): proposed there is a significant relationship between profitability and CSRD.

The relationship between share return and CSRD has been demonstrated in many prior studies and higher earnings per share (EPS) leads to better CSRD (Frankel & Lee, 1999). Dhaliwal *et al.*, (2011) contemp that firms with higher EPS tend to disclose more CSR activities to attract more investments while it helps in reducing the cost of equity capital. Loannou and Serafeim (2011), on the other hand, suggest that the transparency level of the business will increase by disclosing CSR activities. Fiori, Donato, and Izzo (2009) showed that the relationship between stock return and CSR disclosure is flexible, neither positive nor negative. Companies with higher share returns prefer to disclose CSR

activities concerning the employees, while they are unlikely to disclose CSR activities about environmental and community because these elements are negatively related to stock prices. Thus, the second hypothesis (H2) proposed there is a significant relationship between share return and CSRD.

On top of that, research conducted by Rosli *et al.*, (2015a; 2015b), Hassan (2010), Amran and Devi (2008) and Thompson and Zakaria (2004) found that company size has a positive relationship with CSRD. Larger organizations are susceptible to scrutiny by various groups in society and thus, face greater pressure to disclose their social activities in order to be legally and socially responsible (Hassan, 2010). Haniffa and Cooke (2005) noted that a larger organization that undertakes more activities and have a greater impact on society. Thus, the third hypothesis (H3) proposed that there is a significant relationship between company size and CSRD.

Many prior studies indicate that the industry type has an effect on the CSRD. For instance, Rosli *et al.*, (2015a; 2015b) reported the same finding with Zulkifli *et al.*, (2006), who found that the community dimension dominates others where the sample was the telecommunication industry. Zulkifli *et al.*, (2006) further noted CSR activities in Malaysian companies are usually carried out in the same fields with their business activities. The study found that community outperforms others CSRD dimensions. Porter and Kramer (2002) found out industries with higher possibilities to the public controversy would have a keener attitude in their CSR. Hassan *et al.*, (2012) were found that the highest CSRD frequency concerning community involvement. Company with low innovation may not recognize CSR provides a competitive edge and will thus influence their company performance as argued by Hull and Rothenberg (2008). Hence, the last hypothesis (H4) proposed there is a significant relationship between industry type and CSRD.

The stakeholder theory is used to measure organizational effectiveness by its ability to satisfy not only shareholders, but other stakeholder interest as well. The objective of stakeholder theory is to change and broaden the vision of managers whom previously only maximizing shareholder value to be sustainable and profitable. Another research area using stakeholder theory includes principles of entry and exit, governance, externalities, contracting costs, agency principle, and principles of limited immortality (Fontaine, Haarman, & Schmid, 2006). The Stakeholder Theory is very popular in recent years because people are worried about the sustainability of the actual economic system. With companies going global, it is more significant to practice stakeholder theory, as everything has an impact on the society, the people and the ethics. Thus, CSR seems to be an effective mechanism for this stakeholder concept to be successfully practiced (Fontaine *et al.*, 2006). In this theory the interests of various stakeholders are taken into account by a company actively involved in CSR activities.

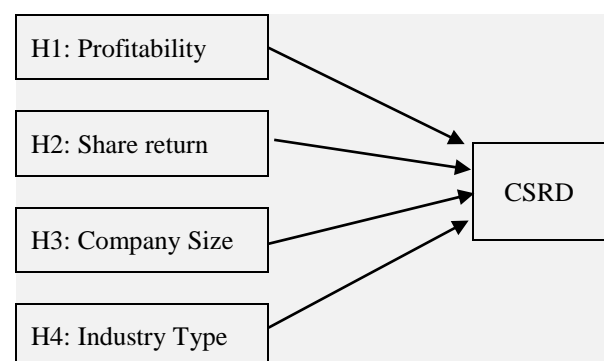


Figure 1: Conceptual Framework

3. Methodology

This study was conducted on Malaysian Public Listed Company (PLC) in the Bursa Malaysia website for the financial year ended 2015. The selection of the year of 2015 was after the implementation of Goods and Services Tax (GST) in Malaysia which is effective on 1 April 2015. The sample size was selected based on the subject-to-variable ratio; 20:1 factor was applied in this study, which was consistent with the previous research conducted by Hair, Anderson, Tatham, and Black (1995). In this study four variables included, therefore the minimum sample size required is 80 companies. By the end of 2015 Financial Year, 818 Malaysian PLCs registered on the Bursa Malaysia website. However, only 100 selected PLCs were taken as a sample of this study. The selection is based on their highest market capitalisation ranking. This selection criterion is consistent with previous studies on CSR (Thompson & Zakaria, 2004; Guthrie & Parker, 1990; Hackston & Milne, 1996). Tsang (1998) stated that a higher proportion of large and medium-sized companies disclosed social information compared to small companies as companies wishing to increase business have larger responsibilities and principles (Gardiner *et al.*, 2003). Data were collected from electronic format of the companies' annual reports, through the Bursa Malaysia website. This study uses the company's annual report as the information contains a high degree of credibility attached and as a primary sources of CSR among Malaysian PLCs and more accessible for research purpose in this way (Haniffa *et al.*, 2005). Data from companies' annual reports were constituted the main data of this study. On the other hands, companies with the varying presentations of financial statements were excluded from this selection.

Content analysis was employed in this study to determine the extend of CSR among Malaysian Public Listed Companies (PLCs). CSR represents the CSR activities communicated to stakeholders via a company's annual report (Mohd Ghazali, 2007; Nik Ahmad, Sulaiman & Siswanto, 2003; Che Zuriana, Kasumalinda & Rapih, 2002). Gray *et al.* (1995a, 1995b), Newson and Deegan (2002) and Neuman (2003) indicate that content analysis has been widely employed in prior studies to measure the quantity of CSR, the contents refer to words, meanings, pictures, symbols, ideas, themes, or any message that can be communicated. Prior research suggests that content analysis is a technique to identify and describe patterns in websites, annual reports, and specified social responsibility reports for the selected companies to measure the level of CSR information by sample companies (Abdul Hamid & Atan, 2011; Hackston *et al.*, 1996; Milne & Adler, 1999). This study used the Bursa Malaysia CSR framework (Bursa Malaysia, 2006) as a theme of disclosure and adopted rating approach from Sumiani *et al.* (2007) in examining the levels of extensiveness in respect of CSR. Five categories of disclosure were used as stated in table 1, with a total maximum score set at 112. The maximum score for each of the categories was 32 for environmental disclosures, 32 for community disclosure, 24 for workplace disclosure and 24 for marketplace disclosure. Administered checklist detailing the categories and items of CSR was established. This checklist was constructed based on the previous research and also referred to the Bursa Malaysia CSR framework.

Table 1: CSR rating approach

Categories	Explanation	Score
Non-disclosure (NON)	None of CSR	0
General information (GEN)	Consisted of either a short or general statement of the company's intention with regards to social responsibility.	1
Qualitative/narrative information (QUA)	Covered any declaration/narrative information about social responsibility excluding the financials, and description of the social performance of a company	2

	that exceed more than a sentence, included illustrative information such as graphs and photographs that depict specific social messages or events	
Quantitative information (QUAN)	Related to disclosures about financial values or quantified environment information,	3
Combination of types of information (COM)	Measurement of quantified social information (words, sentences or numbers) and also non-quantified disclosures encompassing graphs, photographs, charts etc.	4

Later, these disclosures were rated based on the presence or absence, and the degree of specificity of each item (Branco & Rodrigues, 2008; Holder-Webb *et al.*, 2008) with the listed score. The overall CSR scores are the summation of the scores for all the CSR items. The method of scoring is additive of un-weighted indexes that are calculated to the sum of the final CSR Index:

$$CSRDP_p = \frac{\sum_{t=1}^{n_p} X_{ip}}{n_p}$$

where:

CSRDP_p= corporate social responsibility disclosure index for pth company,

n_p= total number of items estimated for pth company

In addition, a normality test was then performed in order to ensure that the data used in the study were normally distributed. An examination on the skewness and kurtosis for each variable seemed to suggest that the dependent variables in respect of total CSR and the continuous independent variables of profitability were not normally distributed. Abdul Rahman and Mohamed Ali (2006) indicate that the data is considered normal if the standard of skewness is within ± 1.96 and standard kurtosis of ± 2. Hence, both the variables were subsequently transformed using Van der Waerden's transformation method (Haniffa *et al.*, 2005; Branco *et al.*, 2008). At the end, regression analysis was conducted by utilizing the transformed variables. A multiple regression analysis was used adopted to examine the relationship between CSR and its influencing factors. The predictor variables included in the analysis were Profitability, Share Return, Company Size and Industry Type. The regression model can be expressed as follows:

$$CSRDi = \beta_0i + \beta_1iPROFITi + \beta_2iEPSi + \beta_3iSIZESi + \beta_4iTYPEi + \epsilon_i$$

4. Results and discussion

Table 2: Frequency of CSR

Types of Disclosure	Frequency	Percent of total CSR
Environmental	275	27.9%
Community	313	31.7%
Workplace	218	22.1%
Marketplace	180	18.3%

Table 2 shows the frequency of each category of CSR. Companies had the highest frequency of disclosures was associated with the community disclosures (31.7%), followed by the environmental disclosures (27.9%) and workplace disclosures (22.1%). The least frequent disclosure was the marketplace disclosure (18.3%). Community disclosure was the highest disclosure compared to other types of disclosure, this is consistent with prior studies conducted by Rosli *et al.* (2015a; 2015b), Hassan *et al.* (2012), Abdul Hamid *et al.* (2011), and Zulkifli *et al.* (2006). These results are consistent with Zulkifli *et al.* (2006), Abdul Hamid *et al.* (2011) and Hassan *et al.*, (2012) were found that the most CSR frequency in regard to community

involvement was higher. Zulkifli *et al.* (2006) indicate that CSR activity trends in Malaysian companies are usually carried out in fields similar to their business activities. However, the result of this study was not consistent with Branco *et al.* (2008) which stated that the environment information and human resources information were more disclosed instead of the community disclosure. Thompson *et al.* (2004) also indicated that low level of CSR is due to the absence of a recognised CSR reporting framework, the reporting cost, reader's interaction and also the lack of government and primary stakeholders' pressure. CSR in Malaysia is said to be still in its infancy due to limited reporting framework and support (Amran, Zain, Sulaiman, Sarker & Ooi, 2013; Yusoff, Lehman & Mohd Nasir, 2006).

Table 3: Multiple regression analysis

Independent variables	Coefficient estimate	p-value
Constant	0.004	
PROFITABILITY	0.438	0.022
EPS	0.287	0.012
SIZE	0.078	0.004
TYPE	0.560	0.060
R ²	0.160	
Adjusted R ²	0.101	
F-Statistic	2.543	
Significance	0.013	
N	100	

** Significant at 5% level

Multiple regression analysis was used to examine the relationship between independent variables (company size, profitability, return of share and industry type) and the dependent variable (Total CSR). The variable is said to have a significant relationship if the indicates the p-value is less than 0.05. Table 2 indicates the significant relationship between profitability (p=0.022), company size (p=0.004) and CSR. Thus hypotheses 1 and 3 are accepted. From the stakeholder perspective, this finding prevailed that there is a relationship between economic performance and CSR activities and CSR. This concludes that financial performance is deemed to be influenced by CSR. Thus, profitable companies by inference would have more financial resources to invest in reporting CSR, and those socially responsible companies will endeavor to enhance their respective competitive advantages (Haniffa *et al.*, 2005; Janggu *et al.*, 2007). Based on the regression analysis, share return (p=0.012) has significant value that influence on CSR. This finding is consistent with previous studies conducted by (Dhaliwal *et al.*, 2010; Loannou *et al.*, 2010; Frankel *et al.*, 1999) that companies with high share return tend to disclose more information on CSR in their annual report. Thus, hypothesis 2 is also accepted. Meanwhile, industry types show a different result, the p-value is not significant to the CSR. The significance value of 0.060 is shown to be higher than the standard that indicates the p-value should be equal or lesser than 0.05, in order to be significant. Thus hypotheses 4 is not supported. These findings supported by the previous research (Brammer *et al.*, 2006; Hull *et al.*, 2008; Porter *et al.*, 2002; Utomo, 2000) which indicates that industry types do not influence the company disclosed on CSR.

5. Conclusion

Generally, it can be concluded that public listed companies in Malaysia have undertaken the significant effort and have acted proactively in providing CSR to the stakeholder. The findings also reveal that community disclosure dominates other CSR categories. Second, this study attempts to investigate the influencing factors for engaging in CSR. The findings did suggest that company size, profitability and share return had been found to significantly influence the CSR. Hence, profitable companies or companies that endowed with ample financial

resources in Malaysia tend to invest in CSR. The findings of this study could benefit the government and policy makers to be consistently encouraging corporate to practice CSR and place appropriate emphasis on CSR issues via tax incentive, global awards; special rules exempted or granted government grants. Furthermore, this research shows that the most financially successful a corporation is the better the ability to undertake CSR, and the higher level of CSR should in turn lead to better long run performance. Therefore, the corporations also need to move forward from just a voluntary disclosure to the better and more beneficial CSR strategy for the betterment of nation sustainability. The study is not without limitations. The limitation was not very significant to affect the reliability of the study. The sample chosen is limited to the 100 companies from the Bursa Malaysia with exceptional to finance services Company. Thus, further research could narrow down the sample to certain affected industries. Most of the variables were company characteristics and financially related. Thus, there is a possibility of the absence of other influential non-financial variables such as corporate governance, religiosity and culture. Next, data collected is limited to one-year only, thus, the result is insufficient to reflect the whole changes and development of CSR in Malaysia.

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