The Factors that Influenced the Extent of Corporate Social Responsibility Disclosure (CSRD): Evidence from Malaysia

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Abstract
This study examines the link between audit committee characteristics, ISO 14000 and Shariah Committee and the quantity of CSR in annual reports. Using content analysis and annual reports from Bursa Malaysia public listed companies, the findings of this study show that from the four variables, only two variables, ISO 14000 Certification and the Investment in Shariah Committee are associated with the extent of CSRD. The two other predictive variables, Audit Committee dominated by Malay directors and the ethnicity of the Audit Committee’s Chairperson, however, were found to be insignificant.

Keywords
Corporate Social Responsibilities Disclosures, annual reports, public listed companies, Bursa Malaysia.

I. Introduction
This study explores the extent and levels of CSR disclosures in the annual reports of the public listed companies (PLCs) in the Bursa Malaysia, Malaysia a growing emerging country. Traditionally, companies only report their business activities in financial reports to their major users of these reports - the shareholders and investors with emphasis placed on financial performance. Due to public pressure and raising awareness on environmental and social responsibility issues, companies began reporting on economic, social and environmental issues. Over the last 30-year, the notion of being socially responsible to the society 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 (CSRD) (Cerin, 2002). The concept of CSR is not a new concept; it has been in existence since the early 20th century in the United States. This concept argued and highlighted whether a corporation shall be responsible to its stakeholders, such as shareholders, customers, employees, creditors, suppliers and the society. Although the subject of CSR has been introduced in the early 20th century, it was not considered as important, until the occurrence of businesses scandals all over the world. Some of the well-known business scandals are Deepwater Horizon (USA, 2010), WorldCom (USA, 2002), Enron (U.S. 2001), Exxon Valdez (USA, 1989) and Union Carbide (India 1984). In these scandals, various issues related to CSR, such as negligence and irresponsible attitude towards the environment, protection of water resources, contaminated food and the poor corporate governance are highlighted (Angelidis et al., 2008; Evans & Davis, 2008; Idowu, 2005). These scandals which involving major companies have raised public awareness that more stakeholders will suffer if the importance of CSR is not recognized (Uwuigbe et al., 2011).

In recent year, in Malaysia, as pointed out by Rashid and Ibrahim (2002), CSR has also started to be given greater emphasis by businesses. Additionally, several non-governmental organizations (NGOs) such as the Consumers Association of Penang, Sahabat Alam Malaysia, and the Federation of Malaysia Consumer Associations have highlighted problems linked to CSR (in particular environmental pollution, labour discrimination, hazardous health products, and product safety. Furthermore, concerns over environmental destruction have been heighten by forest fires in Indonesia in 1994 and 1997 that led to the haze conditions to Malaysia, which lasts for many months, with adverse effects on health and the economy (Teoh et al., 2003). To make things worse, Malaysian businesses are not exempted from environmental crises and business scandals. For example, Malaysia has experienced several environmental and man-made disasters. These disasters have resulting in 282 dead and 1,892 injuries (Aini et al., 2001) and Shaluf & Ahmadun (2006). In addition, Malaysia also experiencing two of the biggest accounting and corporate scandals in recent times, even likened to the corporate scandals of Enron and Worldcom. The scandals of two PLCs Megan Media Holdings Bhd and Transmile Group Bhd in the financial year 2006/2007 have caused large sum of financial losses among the investors in Malaysia. Such scandals have caused the loss of confidence among the current and future investors (Majdi & Rahman, 2011; Zawawi & Rahman, 2008). These disasters and scandals not only have the attention of academics (Burton & Goldsby, 2008) but it has become an important issue for many businesses (Renneboog et al., 2008; Nijhof et al., 2008). Growing concern over social responsibility, many large companies in different industries pushed by their shareholders, consumers, stakeholders, communities and governments have increased programs to exhibit their commitment to CSR (Kang et al., 2010). Now, in industry, doing business in a socially responsible fashion is a demand and has become a norm and beyond dispute (Zu & Song, 2009). While, Wheeler and Sillanpaa (1998) argue that CSR reporting is an effective way to communicate with interested parties and it can build trust and loyalty and ultimately can contribute on business performance improvement. Therefore, as suggested by Rahman and Ismail (2016) a further examination of the determinants of corporate environmental reporting CSRD is still relevant and warranted as evidenced by previous studies. Studies done several scholars such as Andrew et al., 1989; Ahmad & Sulaiman, 2004; Elijido-Ten, 2004, Ahmad et al., 2003; Thompson & Zakaria, 2004, Othman et al. (2011), Haji (2013) and Esa and Ghazali (2012), Fatima et al., (2015), Sundararasan et al., (2016), Anuforo et al., (2018) found a low level of CSRD made by Malaysian PLCs. As such, the objective of this study is the to find out those factors which are positively associated with the CSRD in Malaysian. The rest of the paper is organised as follows. It begins with reviewing of the literature and hypothesis development. The paper continues with discussion on research methodology and sample selection. Next, the results and discussion are provided. The final section concludes the paper.
II. Literature Review & Hypothesis Development

A. CSR and CSR Disclosure
Neu et al., (1998) argued that CSR disclosure could be perceived as a symbolic impression or constructed image of itself that an organisation is expressing to the entire world. Gelb and Strawser (2001) suggested that the information disclosure practice is a feat of socially responsible activity. The results of their study indicate a positive link between CSR and the extent of disclosure. Simply put, organisations that involve in CSR activities offer further helpful and/or comprehensive disclosures than do other organisations that participate in fewer CSR activities. The reasoning behind is that, when an organisation is carrying socially responsible activities, it has the motivations to offer comprehensive and useful disclosure on the activities to make an impact on their stakeholders.

B. Audit Committee dominated by Malay directors
According to Alkdaai & Hanefah, 2012 and Haniffa and Cooke (2005) a board or committee in which controlled by Malays/Muslims are predicted to disclose more CSR information compare to companies are controlled by other ethnic groups. As Muslim, the Malays are influenced by their faith i.e. Islam. Islamic principles and Islamic values promote its follower to be more collective (Baydoun & Willett, 1995) and adhere to laws that are based upon a principle of social equality i.e. ‘zakat’ (taxation) and the ‘mirath’ (inheritance) (Gambling & Karim, 1991). Furthermore, transparency is part of the Islamic business ethics and as such, the Malays are anticipated to be more transparent in their disclosure practice (Haniffa & Cooke, 2002). Therefore:
H1: The extent of CSR disclosure will be positively related to the proportion of Malay directors on the board.

C. The ethnicity of the Audit Committee’s Chairperson
Scholars have identified ethnicity as one of the important demographic factors in disclosure practice in Malaysia because it fulfills an economic motivation to the person (Al Arussi et al., 2009; Haniffa & Cooke, 2002). Grounded on a Hofstede–Gray theoretical framework, the Malays may be predicted to be reasonably less secretive compared to their Chinese associates and low secrecy means higher disclosure (Haniffa & Cooke, 2002). Then, this view could be used in to predict whether the ethnicity of the chairperson of a board or committee has an impact to the CSR disclosure in Malaysia (Haniffa & Cooke, 2002). As mentioned before that cultural factors may influence the demand for a high-quality disclosure and Malays are less secretive than Chinese, hence, more disclosure. Therefore, it can be hypothesized that:
H2: The extent of CSRD will be greater if the Audit Committee is chaired by Malay.

D. ISO 14000 Certification
One of a well-known process of certification that identifies environmental conformity is the ISO14001: Environmental Management System. Even though companies are not mandated to be ISO14001- certified but many willingly submitted to the demanding certification process indicating a commitment for environmental compliance (Eljido-Ten, 2009).

The adoption of ISO 14000/14001 offers assurance to outsiders and exhibits that the company is fulfilling with all significant environmental laws and rules. Furthermore, it also indicated that the companies are constantly enhancing their environmental performance (Sumiani et al., 2007). Furthermore, the adoption of such standard will definitely change organisational culture and operation of a company for the better. Consequently, it is anticipated that the ISO14000 adoption will be positively linked with the CSR disclosure.

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

E. Investment in Shariah Committee
The Shariah Committee is set up to ensure the company runs its affairs in accordance with Shariah requirements. Thus, the existence of such a Committee will provide assurance that the companies are committed in ensuring that their business transactions are within the realm of Islamic Law (Haniffa & Hudaib, 2007; Ibrahim et al., 2013). Furthermore, in Islamic accounting, the concept of conservatism in information disclosure is prohibited (Alam, 1998; Haniffa and Hudaib (2002); Othman & Thani, 2010), instead the concept of social accountability is promoted and supported. As a result, it ensures the promotion and endorsement of the full disclosure concept (Baydoun & Willett, 1997; Maali et al., 2006). Accordingly, the Islamic Shariah underlines transparency and full disclosure between trading group in each business deal (Ebrahim, 2001; Garas, 2012; Thomas et al., 2005). Furthermore, the public has the privilege to be informed of the consequences of the enterprises’ operations and actions in their community (Baydoun & Willett, 1997; Maali et al., 2006). Therefore, it is expected that companies that have inaugurated Shariah committee are expected to provide more and better CSR than companies without such committee (Alam, 1998; Baydoun & Willett, 1997; Maali et al., 2006).

H4: The is a positive relationship between investment in Shariah Committee and the quantity of CSRD.

III. Research Methodology And Sample Selection
This study is carried out among the Malaysian PLCs. The data for this study consists of 347 companies listed in Bursa Malaysia and was mainly secondary in nature. In line with prior studies on CSR disclosures, a content analysis method is utilised (for instance, Abbott & Monsen, 1979; Belal, 2001; Imam, 2000). Content analysis of annual reports is a recognised method and well-regarded to be empirically valid in studies of voluntary disclosure and CSR research (Abbott & Monsen, 1979; Gray et al., 1995a; Guthrie & Parker, 1990; Guthrie et al., 2004). 

1. The dependent variable – CSRD
The dependent variable (CSRD) is based on the number of pages. Several methods are available to determine the disclosure level of annual reports. One of the most common methods is counting words, sentences, paragraphs, pictures and pages. However, scholars such as Gray et al., (1995b), Guthrie and Mathews (1985), Neimark (1983), and 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). Therefore, in this study, the author will be using the proportion of the number of pages as the unit of analysis for this study as suggested and highlighted by several past scholars (Haniffa & Cooke, 2002; Haron et al., 2006) having the propensity of providing the most reliable results under time constraints and large sample size. In addition, findings from past studies show a high correlation between the different methods
and the final and overall results not expected to be significantly prejudiced by the choice of method (Buniamin, 2010; Hackston & Milne, 1996).

2. The Independent Variables
The independent variables and their measurement are shown in Table 1.

<table>
<thead>
<tr>
<th>No</th>
<th>Variable</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Audit Committee dominated by Malay directors</td>
<td>The proportion of Malay directors to total directors on the audit committee</td>
</tr>
<tr>
<td>2</td>
<td>The ethnicity of the Audit Committee’s Chairperson</td>
<td>If the company Chairperson is a Malay or not -Dichotomous</td>
</tr>
<tr>
<td>3</td>
<td>ISO 14000 Certification</td>
<td>If a company has implemented ISO14000 certification-Dichotomous</td>
</tr>
<tr>
<td>4</td>
<td>Investment in Shariah Committee</td>
<td>If a company has established a shariah committee-Dichotomous</td>
</tr>
</tbody>
</table>

IV. Results And Discussion
Table 2 presents the multivariate results using multiple regression for our sample companies:

The regression results for our model of CSRD are shown in Table 3 above. The F-test (F-test = 12.884, p < 0.001) indicates that the model is sufficiently robust. The adjusted R-squared of 12.1% 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 and ShCom) showed association with CSRD in the predicted directions. Of these ISO14000 and ShCom (+) are significantly high at the 1% level. While, ACMalCh and ACMalC are found to be not statistically significant.

<table>
<thead>
<tr>
<th>Variable and Predicted Sign</th>
<th>Regression</th>
<th>VIF</th>
<th>t-value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACMalC (+)</td>
<td>0.06</td>
<td>1.58</td>
<td>0.952</td>
<td>0.34</td>
</tr>
<tr>
<td>ACMalC (+)</td>
<td>-0.076</td>
<td>1.55</td>
<td>-1.22</td>
<td>0.23</td>
</tr>
<tr>
<td>ISO14000 (+)</td>
<td>0.314</td>
<td>1.01</td>
<td>6.201</td>
<td>0</td>
</tr>
<tr>
<td>ShCom (+)</td>
<td>0.194</td>
<td>1.04</td>
<td>3.784</td>
<td>0</td>
</tr>
</tbody>
</table>

Summary Statistics:
- Intercept: 0.362
- R2: 0.131
- Adjusted R2: 0.121
- F-Test: 12.884***

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

Audit Committee dominated by Malay directors is found to be insignificant and positively related to the extent of CSRD (r-statistics=0.952; p-value=0.342). This result does not support H1, which claims that the higher the proportion of Malays directors on the audit committee the more the disclosure of CSR. Even though companies can have many Malay members in the audit committee, it is not a guarantee that the extent of CSRD will improved. Furthermore, this finding also in line with the findings of Alkaidi & Haneiah (2012). They found that the number of independent Muslim members of in the audit committee is more effective than just having more directors in the audit committee (Alkaidi & Haneiah, 2012).

The ethnicity of the Audit Committee’s Chairperson has also been found to be insignificant and negatively related to the extent of CSRD (t-statistics=-1.216; p-value=0.225). This result does not support H2, which claims that the extent of CSR will be greater if the audit committee is chaired by Malay. This negative relationship implies that the presence of Malay Chairperson will lower the disclosure of CSR information. This finding contrasts with the findings of Al Arussi et al., (2009) and Hanifia & Cooke (2002). Both studies stated that the ethnicity is an important factor in disclosure practice in Malaysia.

ISO 14000 Certification is found to be significant and positively related to the extent of CSRD (t-statistics=6.201; p-value=0.000). This result supported H3, which claims that the presence of ISO14000 certification will influence the extent of CSRD in the annual reports. This result is consistent with a prior Malaysian study conducted by Sumiani et al., (2007), this study found that ISO 14000 certification has some level of influence towards CSR amongst Malaysian companies.

Finally, regarding the Investment in Shariah Committee, the findings indicate a positive and statistically significant effect on the extent of CSRD (t-statistics=-3.784; p-value=0.000). Therefore, H4 is Supported. In contrast with finding by Neifar and Jarboui (2018) that there is no statistical evidence to support that the existence of shariah committee will improve the extent of disclosure.

V. Conclusion
This study has investigated whether the extent of CSRD in annual reports of Malaysian public listed companies is associated with four of variables Audit Committee dominated by Malay directors, the ethnicity of the Audit Committee’s Chairperson, ISO 14000 Certification and the Investment in Shariah Committee. Results based on the full regression model with four variables indicated that only two variables, ISO 14000 Certification and the Investment in Shariah Committee are associated with the extent of CSR.

The two other predictive variables, Audit Committee dominated by Malay directors and the ethnicity of the Audit Committee’s Chairperson, conversely, were found to be insignificant. 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 CSRD. 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.

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 significant to run a longitudinal analysis on yearly basis as it might assist to uncover the trend of CSRD. Secondly, the study only covers on the quantity of CSRD.
In future research, it would be beneficial to look into quality of CSRD.

References


