Professorial Lecture

Corporate Social Responsibility in Malaysia

14 JULY 2009
10.00 AM
DEWAN ANNEXE,
UiTM SHAH ALAM

By

PROF. DR. MUSTAFFA
MOHAMED ZAIN
Professorial Lecture

Corporate Social Responsibility in Malaysia
CORPORATE SOCIAL RESPONSIBILITY IN MALAYSIA

ABSTRACT

Corporate Social Responsibility (CSR) started slowly in Malaysia. However, because of internal and external pressures, CSR has picked up pace in the new millennium. New terms which were alien to many previously such as transparency, accountability, governance, sustainability, ethics and many more are now becoming household words. These terms are not only spoken, but also practiced. Malaysian companies are now more aware of the three ‘P’ concept; Profit, People and Planet. This paper generally looks at the state of play (What, When, How and Why) of CSR in Malaysia. It confirms that CSR is commonly practiced by Malaysian companies. However, participating in CSR and disclosing CSR information are two completely different things. A particular theme which was popular a while ago may no longer be so now. Current issues reflect the themes of disclosure. Different company characteristics such as size, profit, ownership, industry, governance and other related factors also proved to be important factors in what and how much companies disclose. The impetus for disclosure also differs from one company to another. Some may disclose to discharge accountability while others due to pressures or trying to legitimate their business. Corporate social reporting in Malaysia, even though is still in its infancy stage, has its own unique characteristics. The amount, theme and reason for disclosure may have some similarity with the
West but it is the effect of culture and religion in Malaysia, such as modesty, openness, close-knit community and Islamic values, which are contrasting have the largest influence for companies to disclose or not to disclose CSR information. This paper also looks at the expectation gap between the providers and users of CSR information. Suggestions to bridge the gap particularly identifying the roles to be played by the professionals, companies, academicians and government are provided. Finally, this paper looks at the way forward for CSR in Malaysia by rebutting some opinions and providing some insights to the future.

**INTRODUCTION**

Traditionally, the main concern of businesses is to make profit and maximizing the shareholders' wealth. In order to achieve that, they exercise all possible means as long as they are within the ambit of the law. The early 50's and 60's, the golden era of rising demand, generous profit margins and limited competitive pressure, saw the directors enjoying free hands in making decisions and using of resources available to them. Shareholders normally played a passive role and did not have much say in the affairs of the company. The companies were too consumed at making profits that they forgot to give back to the community they operated in.

Corporate social responsibility (CSR) has been continuously debated over the years. The oil crisis in the 70's, the economic downturn in the 80's and the Asian financial crisis and intensified competition in the 90's were the impetus. Investors were now more concerned with their investments and the decisions made by board of directors consequently were scrutinized. CEO and board of directors found themselves under growing pressure to perform, and maximize shareholders wealth, lest they were likely to be replaced. Maximizing shareholders wealth took a slightly different meaning. Today a growing number of companies, multinationals, Government Linked Companies (GLCs) and even Small and Medium Enterprises (SMEs) are making CSR a part of their ongoing business activities. Interests
in corporate, environmental and social performance have never been greater, and many leading companies are choosing to communicate with a broad range of stakeholder groups through the publication of annual reports, environmental, social and sustainability reports.

The new millennium has seen the emergence of a new way of thinking about the functions and duties of modern corporations. Corporate managers are pressed with more responsibility to serve the needs of society at large. Today, businesses are expected not only to increase their bottom line, but also to operate within the 'new moral marketplace'. Corporate morality is increasingly being judged by consumers, investors and employees. Terms that are alien to many a few years ago such as 'green marketing', 'environmentally friendly', 'gender sensitive', 'fair trade', 'against animal testing' and many more have become household words and high on consumers’ conscience today. Beyond that, global issues like the oil crisis, environmental degradation, human rights, labor issues and energy issue forced the companies to reconsider their objectives. Instead of just trying to maximize profits and please their shareholders, many multinational corporations are beginning to understand that they now have a broad spectrum of stakeholders. This includes investors, creditors, employees, governments, NGOs and the various communities in which they operate. Businesses have to satisfy needs of all these stakeholders, thus, they have an additional role and purpose: Hence, the term corporate social responsibility has born.

CSR is about the rules for proper conduct for business enterprises. Corporations need to embrace 'corporate citizenship' and run their affairs according to the need of the different array of 'stakeholders', so as to promote the goal of 'sustainable development'. This goal supposedly has three dimensions; 'economic', 'social' and 'environmental'. Companies should aim to meet the 'triple bottom line' (Profit, People and Planet), which gives equal prominence to the financial, environmental and social aspects of a company's performance. CSR holds that only by incorporating the 3 P's can a business meet society's expectations, and earn from society the
informal ‘license to operate’. Therefore, a commitment of corporate citizenship is the key to long-run profitability for individual firms, and ensuring public support for the market economy.

The first P (Profit) needs no explanation. Adam Smith, the founder of the modern economics, said that “the pursuit of self-interest in a free market would benefit all in society”. This can be interpreted as pure capitalism where business has only one focus i.e. profit optimization. The second P (People) involves both the employees and the community. Employees are considered as the main asset of the company. With trained and knowledgeable employees, corporations are not only able to produce effectively, thereby maximize profit, but also reduce accident and ‘down-time’. Additionally, employees are considered as extension of top management. Corporations therefore, must be responsible to upgrade, educate and train their employees, finally making them socially responsible.

Corporations have an invisible social contract with the community. In order to succeed, corporations must have the ‘license to operate’. This license is normally approved by the society if the corporations are seen to be socially responsible. Malaysian companies have been very generous in lending a helping hand. Recently, the major flood in Southern Peninsular saw many companies coming forward to contribute and participate in ‘Disaster Response Team’. Similarly, companies’ involvement in helping the victims of Tsunami in Acheh in 2004 and earthquake in Jogjakarta is commendable. However, taking care of the community or society does not only mean charitable contribution or philanthropy, but more importantly the ongoing participation in community development and improving the quality of lives.

The third P (Planet) involves the environment. In order to save the planet one has to preserve the environment. This planet is our legacy to future generations. What we do today will ultimately affect the future. However, the greed for profit has put the environmental
agenda well behind. Time and again, we see newspaper reports about the environment degradation, green house effect, oil spills and many undesirable elements. We need the support of everyone including the government, corporations, or individuals to protect our environment. Governments need to pass bills and follow through with enforcements. Corporations, communities and individuals must not only abide by the law, but also play a proactive role in sustaining the environment.

The early evolution of CSR practices in Malaysia was largely because of a large number of foreign multinational corporations (MNCs) (see for example Teoh and Thong, 1984; Mohamed Zain, 1999). They practice relatively sophisticated CSR, and their overseas subsidiaries are adopting similar reporting practices because they are pressured to standardize the CSR performance of affiliates in different foreign locations. To keep on pace, it is perhaps no surprise to find that the local icon companies are emulating the CSR practices of these MNCs.

The development of CSR has been influenced by internal and external factors (see Mohamed Zain, 1999 and 2004). Internal factors include management initiatives in engaging CSR activities; this will lead to an improved corporate image among stakeholders. The management usually discloses the CSR within certain circumstances. From the external perspective, the company discloses social information in annual reports or other media when there is a demand from the stakeholders. Theories have been developed from time to time to ensure that CSR disclosure provides useful information to users.

The main aim of this paper is to look at the current state of CSR and what the future holds for CSR in Malaysia. The paper will start with the definition of CSR and proceed to look into the development, the current practices and the theories of CSR. Based on the author's previous researches, the main emphasis of this paper will be on issues such as the impetus for participation and disclosure.
of CSR, why companies are reluctant to disclose CSR information, the impact of culture and religion on CSR and how to narrow or bridge the gap. Last but not the least the paper will look into the possible future prospects of CSR.

DEFINITION

The term CSR appeared around the turn of the twentieth century. However, there has not been any literature that provides a consistent meaning of CSR resulting in the term becoming the subject of a considerable amount of academic research (Ullmann, 1985). CSR is not subject to legislation equivalent to Companies Acts and is thus neither practiced systematically by organizations nor able to claim universal recognition or universal definition. In fact, there have not been many studies that explain the importance of CSR disclosures in annual reports.

Several major accounting institutions such as AICPA, NAA, and ICAEW began to consider corporate social accounting in the mid 1970s (Ramanathan, 1976). While other dimensions of CSR have only begun to penetrate public awareness, the environmental responsibility was already established in the 1990s. The Green Paper of the European Commission (July 2001) defines Corporate Social Responsibility as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis: “Essentially a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment”. The recent Green Paper notes that for an organization to be socially responsible means not only that legal expectations be fulfilled, but it also means “going beyond compliance and investing more in human capital, the environment, and stakeholder relations”. The Green Paper describes CSR in two categories: (1) the internal dimension, which is interpreted to include human resources management, health and safety at work, adaptation to change, and management of environmental impacts and natural resources and (2) the external
dimension which is projected to include local communities, business partners including suppliers and consumers, human rights, and global environmental concerns. According to Arvidsson (2003), CSR is not a clear and intangible term because it means different things to different people and organizations, as he mentioned:

"CSR must be understood as the voluntary commitment of business to social development and environmental preservation, based on their social composition and responsible behavior to the people and social groups they interact with" (p. 23).

Traditionally, society perceived responsible organizations as those who provided a product or services valued by society, operated within the confines of the law and provided employment. Public expectations have for the past few decades, undergone significant changes. Their expectations are no longer confined to the above but also expect corporations to attend to the human, environmental and other social consequences of business activities. There is increasingly widespread belief that businesses must operate in the interest of their owners and the public. This belief is backed by social pressure for businesses to combine social and economic objective in their operations, and by legal mandate for businesses to avoid or correct the negative impacts of their operation on society. The economic function is now recognized as being too important and too closely linked to other societal elements to be allowed to operate without close public oversight.

THE DEVELOPMENT OF CSR

Influences for CSR development vary from country to country according to each different legal structures, cultures and markets. Employees have been a powerful force in some countries, whereas consumerists and environmentalists have been prominent in others. Issues, crisis and disasters such as, the oil crisis, environmental degradation, human rights, labor issues and energy issues,
Chernobyl, Bhopal, Exxon Valdex, all played important roles towards the development of CSR.

Corporate accountability towards wider social interest groups has been debated in the United States and many other countries (Gray et al., 1987). The constantly changing public expectations have redefined society’s notion of CSR. The early sixties saw the society’s increasing concern for equal employment. In the seventies, there was an increasing concern for the minimization of pollution and the effective utilization of society’s resources by corporations (Epstein, Flanholtz and McDonough, 1976). Environmentalists, for example, has been demanding information on corporate responsibility and its social impact, both beneficial and detrimental, while labor unions have demanded complete information on minority hiring, environmental affairs and company activities in foreign countries. Society, therefore, needs more than just economic information but also social information to know what companies are doing towards discharging their social accountability.

In Western Europe, employee issues were originally the key area of corporate social reporting. Social information in the seventies was very much focused towards employee related disclosure and to a small extent, environmental information. West Germany and France, for example, are much more subjected to the institutional requirements for CSR than their American counterparts. This could be explained to some extent in terms of cultural environments because systems usually develop unique characteristics as a result of both internal and external pressures. This variation in development is probably related to the will and political strength of employees and unions, so emphasis was placed on employees, as opposed to the interests of other pressure groups such as environmentalists or social investors. Dierkes (1979) suggested the steady increase of interest in corporate social reporting in Germany in the late sixties and early seventies was due to the ‘tremendous growth and achievements and high degree of consensus about the prevailing economic interest in society and other priorities’ summarized as “quality of life” issues.
which have become prominent and politically significant'. In 1974, Brockoff (1979) analyzed 300 annual reports of German companies and found out that 205 published a ‘Social Report’ which focused mainly on employee reporting, reporting on social benefits provided to employees and reporting on research and development and some environmental reporting.

Employee information continues to the top the list of social disclosure in the eighties. Delmot (1982), who surveyed 58 Belgian companies, reported that contents of social information disclosed were mostly employee related. Eighty-eight percent of the companies surveyed disclosed information on size and distribution of workforce, seventy-eight percent on labor turnover and seventy-two percent on working hours. Ethical issues such as community and community affairs, equal opportunity, customer and socially beneficial products and services were high on the agenda in the mid-eighties (Rockness and Williams, 1988; Harte, Lewis and Owen, 1991).

The pressures for accountability are coming from a number of sources, for example, the growing number of pressure groups, ethical investors, consumer associations, and the growing number of United Nation and European Community Directives (Gray, Owen and Maunders, 1988). Gray et al. (1988) identified several reasons why there is an obligation to report to a wider audience of the general public, for example:

1. The development and growth of the influence of trade unions in most developed countries;

2. The increase in the demand for greater recognition of the view that those who are significantly affected by decisions made by institutions in general must be given the opportunity to influence those decisions;

3. The potential gap between private gain and social gain has become a source of public concern, especially in relation to so-called ‘externalities’, e.g. pollution; and
4. The substantial growth in industrial concentration has meant that some corporations are now large enough individually to exert influence on macro-economic variables and national economic and social policies.

In developing countries where businesses are vitally concerned with increasing production and maximizing profits, government and consumers are concerned with developing public amenities and infrastructure, CSR may not be emphasized at all. Schwarz (1993), for example, stated that the dilemma of how to balance the need for economic development and the cost of environmental deterioration still remains more than a year after Rio’s 1992 Earth Summit. For Asian developing countries, environmental concerns are arguably given a lower priority than critical issues such as food production (Schwarz, 1993). Malaysia is of no exception. Being a developing country, she has plenty of natural resources and a relatively 'clean' environment.

In Malaysia, the legislative history of Companies Ordinances and Acts show a characteristic trend where the boundary of minimum disclosure has been continually widened and enhanced over time. British influence was dominant in the early days of Malaysian company legislation. One can also say the same of structure development of the Malaysian Companies Act 1965 (Revised-1973), which derived much of its impetuous from UK practice or by legislation. The important role of company law has had, and still today, an influencing effect on CSR in Malaysia. Although the law provided minimum disclosure requirements, it is a normal practice for companies to disclose no more than they have to.

**Domestic Pressures**

The traditionally close knit Malaysian community (collectivist) has slowly changed to the new materialism and individualism which would change the society, abandoning its values, culture and heritage. Since most Malaysian companies are considered ‘young’ and small, the existence of the business is crucial, and therefore, will
focus their strategies on strengthening their business via attracting more investors and increasing profit. Companies would carry out their social activities if and when it benefits the business.

The number of advocacy groups in Malaysia is increasing for example, the Malaysian Consumer Association and Sahabat Alam Malaysia. Even though their number and voice do not mirror that of the US, their intentions do, which would make development for CSR a possibility to follow US development. These advocacy groups have not only pressured corporations to be socially responsible, but also prompted the government to amend Bills and regulations. For example, to deter offenders, the Environmental Quality (Amendment) Bill 1996 which seeks to give the Minister and Department of Environment director-general more power as well as increase fines and jail terms for offenders was recently tabled at the Dewan Rakyat. Manufacturing industries on the other hand, must always keep their emission below the levels set forth by the Department of Factories and Machinery.

Domestic pressure also plays an important role towards the development of corporate social responsibility. The Bakun project, which could submerge millions of acres of prime jungle and its inhabitants, has raised controversial issues such as the impact on the environment, the rainforest, its inhabitants and also the ethnic groups that need to be evacuated, has attracted a lot of interest groups world-wide (Far Eastern Economic Review, July 1994). Tragedies, for example, the collapse of Highland Towers have prompted the government to make Environmental Impact Assessment compulsory before any construction on hill slope is undertaken. The recent landslides in Bukit Antarabangsa opened local authorities’ eyes that having laws without enforcement will inevitably bring disaster. Media watch such as The Star, The New Straits Times, TV3, Karam Singh Walia, Expose and NTV 7 constantly keep companies on their toes to take care of the environment and responsible for all their actions.
International Pressure

Supranational influences play a significant role in the development of corporate social reporting in the developing countries. International pressures from international organization for example Commonwealth Countries, World Bank, General Agreement on Tariffs and Trade (GATT), international capitalism, international business and international capital markets (see Gray et al., 1996) are likely the main reasons why companies in the developing countries are disclosing social information.

The Langkawi Declaration, a proposal for all the Commonwealth countries to be environmental-friendly was one of the main items on the agenda of the Commonwealth Heads of Government Meeting held in Malaysia in October 1989. The ‘Declaration’ has ten basic action programs to conserve the environment such as reforestation and the practice of agriculture that reduces carbon dioxide and to deter pollution via dumping toxic waste in seas and oceans (there was no mention on reporting, however). The declaration was unanimously accepted by all the Commonwealth countries which show the overall concern for the environmental problems and the need to overcome them worldwide. The developing countries, especially, need to set up their own action programs in line with the declaration while the developed countries are to give full assistance. Also included in the agenda was eradication of poverty and enhancing the quality of life. This later leads to the introduction of a ‘caring society’ policy by the Malaysian government in the early nineties.

As a newly industrialized country, Malaysia has experienced the presence of a large number of giants, local and multinational companies. These MNCs not only brought businesses to Malaysia, but also their social and environmental agendas. Even though social responsibility is embedded in the culture and values of the Eastern countries, the concept of CSR Disclosure was introduced to Malaysia scenario only in the early seventies by the multinationals. The tide is turning. Though CSR disclosure rave were slow to catch up in
In addition to the cultural and market factors, previous studies (Teoh and Thong 1985; Hackston and Milne, 1996; ACCA, 2002 and 2004; Mohamed Zain, 2004; Mohamed Zain and Janggu, 2006) also found that a number of corporate characteristics such as company size, profitability, industry with which the company is identified, and country ownership influence CSR practices:

1. CSR does appear to be related to company size but are results are not reliable.

2. There is some evidence related to industry effects but results are consistent.

3. CSR does not appear to be related to profitability in the same period but some evidence suggests that it might be related to lagged profit.
4. Country of ultimate ownership seems to have a significant effect.

5. Management structure does have relationship with CSR activities

THE CURRENT STATE AND LEVELS OF CSR

This section focuses on the current state of CSR activities which includes the themes and levels of CSR disclosures, and how companies are disclosing such information. Participating in CSR activities does not necessarily mean that companies are disclosing such information. The data source for CSR information is mainly from annual reports which provide the principal means for corporate communication of activities and intentions to stockholders and are the primary source of social reporting by firms. The annual report provides management with a public platform to air their views about their consciousness, awareness and responsibility towards the public and in the process they could also advocate their own business interest. This social part of the annual report normally included information on the community, products and the environment. However, companies do document their CSR activities through other means such as pamphlets, internal brochures, newsletters, and other related documents. Currently, more and more companies are disclosing their CSR activities through special stand alone reports such as Environmental Reports, Sustainability Reports or CSR Reports.

Themes of disclosure

In CSR Disclosures, the themes of disclosure are normally divided into four categories; human resource, community, product and environment. These four categories can be further sub-categorized. Human resource for example can be sub-categorized to: employee appreciation, training, safety, awards etc., whilst community: donations or charity, education, eradication of poverty,
CORPORATE SOCIAL RESPONSIBILITY IN MALAYSIA

culture and sports and many more. Since corporate social disclosure is voluntary, the themes and frequencies of disclosure will depend on the company characteristics.

**Human Resource**

Many previous researches (for example, Teoh and Thong, 1985; Mohamed Zain et al., 2006; Mohamed Zain and Mohammad, 2007) identified human resource as the most popular theme disclosed by most companies. Since most companies regard the human resource as their most valuable asset, it is not surprising that the incidence of disclosure is high. Good management of human resources is essential to the company if it is to maximize profit. Employee related information is also of major interest to employees themselves, who may be given the annual report either because the company views this as good practice or because they are also shareholders (Adams et al., 1995).

Mohamed Zain et al. (2006) noted that human resource disclosure is largely in narrative form. Number of employees is normally mentioned in the operational review with some companies providing graphics. Some companies devoted an entire section of the annual report to human resource information. A majority of Malaysian companies provided an extensive review of their human resource development. They provided information not only about the number of employees, but also on the training and development, welfare and awards to the employees. Normally companies would disclose information about the need for training, types of training conducted and sometimes the amount spent. Information on employee training and development issues was mainly of a descriptive nature. However, some financial expenditure and other quantified information were reported by a small number of companies. Disclosure on human resource is normally in qualitative form.

Normally information on human resource is very much focused on employee training and welfare. These disclosures remain consistent since the eighties and the early nineties. Some companies even developed their own training centres. The most popular human
resource sub-themes are education, participation in sports and culture and philanthropy. This may be due to the government emphasis of making Malaysia the educational hub of the region. However, Mohamed Zain and Mohammad (2007) discovered that disclosures on employee safety in the seventies, eighties and nineties are very rare but the new millennium however saw a drastic increase in disclosure. Information on employee safety also increased drastically in the new millennium. Government emphasis on Occupational Safety and Health (OSHA) and mandated by law in the late nineties could have also triggered these disclosures. Major companies even dedicated several pages to OSHA.

**Community**

Apart from human resource data, thirty-seven companies disclose community information (Mohamed Zain and Janggu, 2006; Mohamed Zain et al., 2006). High disclosures in this area might be due to the introduction of the ‘Caring Society Policy’ and ‘Vision 2020’ by the government in the early nineties. Since annual report is targeted mainly to the shareholders and potential investors, disclosing companies might want their readers to know that they are a good corporate citizen, adhering to the government’s policy and that they are accountable to the wider public.

Mohamed Zain et al. (2006) highlighted that community disclosure was given the highest level of attention by companies in the trading and property sector. This is to be expected since the trading and property sector deals directly with the public. In promoting their company’s image and product/services, it was found that companies engage themselves in social activities. In the property sector, social activity such as sponsoring cultural and sports activities could help them gain public confidence and in turn promote sales. It is, however, surprising that the consumer and financial sectors disclose less information pertaining to these activities. Since they are also directly involved with the public they may be expected to disclose as much as the trading and property sectors. Limited annual report access by the ‘larger public’ could be the reason for this. Community information is also given less attention by the
manufacturing and construction industry. Could this be because these companies do not have direct contact with the public? The bigger the company, the more companies disclose information. The same also applies to charity and community education. The most common sub-category disclosure under community activities is helping the poor, community health and ensuring public safety.

CSR however, goes beyond philanthropy i.e. giving money to charities. It is not just an obligation but rather the integrated part of its corporate values in action. When implemented and managed well, CSR provide sustainable value to the recipients and the contributing company. Benefits include strengthening market presence and goodwill as well as brand marketing. They moved from just passive donors, to initiate CSR programs that encourage their employees to contribute time, skills and experience to help communities affected by the tragedy. The devastating 2004 tsunami, for example, brought about a sea of change to many companies. Petronas is one example. By doing so, it is hoped that many others will participate. We need to give back to society what we have received.

Mohd Ali, Ibrahim, Mohammad, Mohamed Zain and Alwi (2009) observed that the increasing demands placed on businesses to fulfill their social responsibilities have heightened interests in corporate donations. Being the first research of its kind in Malaysia, the study examined whether stakeholders especially investors consider corporate donations when they determine the value of the firm, and tested empirically the determinants (i.e. leverage, firm's size and profitability) of corporate donations made by Malaysian Public Listed Companies. The results revealed that there is a positive relationship between corporate donations and market value of equity. This study also revealed that there is no significant relationship between the leverage and the corporate donations. Even though the result contradicts the findings of some other researches, the study provides evidence that company size and profitability are important determinants of companies that are more likely to contribute to the society.
**Products**

Mohamed Zain et al. (2006) noticed the general absence of product information disclosure. This is surprising, given that the product itself is the most immediate connection that a consumer has with the firm and will, therefore, be very influential upon its reputation. For firms not to give themselves a reference for the standard of their product appears to be a golden PR opportunity lost. One reason could be that consumers or the public at large do not generally seek access to the annual report. Product and services were classified under three sub categories; General Statement, Product Quality and Safety, and Research and Design. General Statement disclosure includes awards and other product-related disclosure. Most companies reporting on Product/Services tend to disclose on Product Quality and Safety, and in the form of a General Statement. Disclosure on products and services, normally found in the operational review section of the annual report, mainly concentrates on the types of products offered, safety, environmental friendliness, after sales service, awards received and research and development. All companies that disclose product information only mentioned good news, which tend to be general and uninformative.

**Environment**

Issues on environmental has long been discussed in developed countries. The amount of research explored this issue has been tremendous and these studies have shown that there was an increasing trend towards environmental reporting (Deegan and Gordon, 1996; Gray et al., 1995a). Longitudinal studies conducted in three different countries, Australia, United Kingdom and Singapore have also protruded the increasing trend of environmental reporting (O'Donovan and Gibson, 2000; Tsang, 1998) Gray et al., 1995a, b;.

In Malaysia, however, environmental reporting is still a relatively new concept and practice. It is still made voluntary for companies to disclose environmental related issues in their financial report. ACCA (2002) report entitled ‘The State of
Corporate Environmental Reporting in Malaysia' suggested that corporate environmental reporting (CER) in Malaysia is in its infancy. The survey looked at the annual reports and any stand-alone environmental reports, including an Internet search, of all companies listed on the Bursa Malaysia (previously known as Kuala Lumpur Stock Exchange [KLSE]) main board between 1999 and 2001. It found an increasing number of companies engaging in CER. From 1999 to 2001 the number increased from 25 to 40, representing 5.3 percent and 7.7 percent, respectively, of the KLSE main board. All reporting companies used their annual report for communicating environmental information to their stakeholders. Some 95 percent of those using CER devoted less than a page to it in the annual report. Of those producing some form of CER, few have started to include environmental performance data to provide an indication of their impacts and progress or to provide quantifiable environmental objectives and targets. Environmental management and achievements were the two most commonly reported areas. Despite the increasing trend, the environmental information was not well reported (Romlah, Takiah and Nordin, 2002).

Mohamed Zain (1999) found out that, in the last millennium, the degree of involvement by companies in activities concerned with the physical environment is very limited and the amount of disclosure on environment issues is low. Environment was classified under three sub categories: pollution, waste, and general environment. General environment includes information on landscaping, general statement of what the company will do, and environmental education. Environmental disclosure is not popular among Malaysian owned companies. Pollution and waste information was the most common theme of disclosure by Malaysian companies.

However, Mohamed Zain and Mohammad (2007) pointed out that the new century saw the quality of air and water as the two most popular sub-themes for information on the environment. These two sub-themes are popular particularly among companies in the plantation, and manufacturing sectors. Every year Malaysia
is faced with the problem of haze. This haze is the result of open burning in Sumatra and Borneo. To reduce haze and improve the quality of air, the government prohibits open burning. The quality of water, particularly of major rivers in Malaysia, is deteriorating. In light of these factors, companies could be motivated to disclose such information because they are compelled to do so or simply to legitimize their business.

The amount of disclosure made by companies in this area ranges from a few sentences in the Chairman’s statement to an entire page in the operational review. As might be expected, information was often industry specific. Thus, disclosures from manufacturing, power supply and oil and gas companies should include information on reducing pollution levels, waste, discharges and energy conservation.

Sawani, Mohamed Zain and Alwi (2009) examined the current state of environmental management practices among Malaysian ISO 14001 Accredited Companies and also the accountant’s perception in relation to how environmental management information should be accounted for and reported in the annual report and explore the reasons for environmental cost measurements. The result of the study indicates that Malaysian ISO 14001 Accredited Companies have not yet developed a comprehensive application of Environmental Management Accounting (EMA) system. However, most of the respondents believe that all information related to environmental matters should be reported in the notes to the financial statements rather than the income statement. In most cases, the Full Costing and Activity-Based Costing (ABC) have prominently become the EMA system most favored by respondents. Furthermore, there is no difference in reasons given to explain choices for environmental cost measurement.
Green Marketing

The new millennium put further pressures to corporations and managers to engage in CSR activities. They are expected to operate within the 'new moral marketplace' such as 'green marketing', 'environmentally friendly', 'fair trade', and 'against animal testing'. Green products are currently very high in the list of consumers become household words and high on consumers' conscience of today. Even though there is a lot of emphasis on green product and green marketing, research in the area is very limited in Malaysia. One such research is by Alwi, Mohamed Zain and Mohammad (2007). They found out that even though 'green' issues are still in their infancy stage, they are influencing the consumers in the developing economies such as Malaysia. The study suggests that corporate environmentalism is happening, even in the food and beverage industry in Malaysia. However, the results on supplier selections have failed to show that it has become an important competitive criterion to this industry at this moment. Even though, there are no surveys on the size of the green market segment in South-East Asian countries, there has been some indication that the size of consumers who incorporate environmental factors into their purchasing decision has become quite large (Butler and Kraisornsuthasinee, 1999). For example, in Thailand, organic food is much more available now and so are the commercial advertisements that stressed environmental issues, which were quite rare before 1990. Organic food has received a considerable amount of press attention even though this interest has yet to filter down to other types of green products. The companies acknowledged the existence of an impact from a variety of factors. They identify the ingredients and processes as the most affected areas and saw companies taking positive remedial steps although not on the most proactive level.

Alwi et al. (2007) also highlighted that here is a good opportunity for green market growth, but, marketers have a real challenge in the future in which environmental commitment as well as environmental education will demand their top priorities
to be successful. The results show that generally the ingredient is the most impacted product attribute, followed by the process, the label, the packaging and the overall product respectively. Companies initially developed and introduced green products in response to the competitive and consumer pressures as well as legislative pressures. Competitive pressure was cited as the dominant force in this industry although the consumers as well as legislative pressures were also significant. However, while other pressures have been increasing slowly, consumer demand, competitive and intermediary pressures had gained in importance in the recent years in Malaysia. Whilst the companies had responded well to green opportunities by ‘supplying new green products’, the majority of them acknowledged doing so just to comply with regulations.

**Government-Linked Companies (GLCs)**

A major finding of Mohamed Zain (1999) indicated that the information on the community disclosed in annual report was to please the politicians. This is particularly found in government linked companies (GLCs). Whilst most directors noted that they disclose this information because they participate in a lot of social activities, an interesting additional reason for disclosure is that they wanted to please the politicians. Apart from making profit, these companies are also expected to fulfill the government’s social obligations.

Saat, Mohamed Zain, Mohammad and Alwi (2009) investigated the CSR practices of 30 GLCs listed on Bursa Malaysia for the period between 2000 to 2004, to reveal the trend of CSR disclosure and to ascertain the relationship between CSR practices and corporate performance of the GLCs. They found out that disclosures among the GLCs are increasing from one year to another throughout the period of the study. These results indicated that to a certain extent, some GLCs have indeed led other companies in promoting CSR as part of their business culture. However, statistical results revealed that the CSR is not significant to the performance of the companies as measured by return on asset (ROA) and return on equity (ROE). Only environment theme has a positively weak relationship with the
ROA. Even though the level of awareness or concern towards CSR among the GLCs is high, this does not have a clear relationship with the companies’ performance, i.e. the high contribution of CSR does not have any significant impact on the companies’ profitability.

Mohamed Zain and Mohammad (2007) also surveyed 35 GLCs which have been playing an active role in disclosing CSR. In line with government policy, GLCs like Petronas, Tenaga, Telekom, Sime Darby and many others have specially dedicated pages towards national human capital building particularly on matters relating to scholarships, education funds, and private universities. Companies like Golden Hope, which won several Malaysian Environmental and Social Reporting Awards (MESRA), have adopted the Malaysian Chapter of the Global Forest and Trade to show their commitment to responsible forest resource management.

Levels of CSR Disclosure

The earliest research on CSR in Malaysia was by Teoh and Thong in 1985. They surveyed one hundred public listed companies, representing a cross section of industrial groupings ranging from plantations and mining to various types of manufacturing and services, through personal interview questionnaire. Teoh and Thong touched on the concept of corporate social responsibility, i.e., the nature and extent of involvement in socially relevant activities and corporate social reporting through four levels of social objective hierarchy. The social objective hierarchies are identified as social awareness, social involvement, social reporting and social audit. It was discovered that companies are aware of their social roles because of the top management philosophies.

ACCA (2004) surveyed all the listed companies on the Bursa Malaysia. It found an increase, compared to a previous survey, in the number of companies reporting on social and environmental performance. Sixty companies (10%) provided environmental information, and 49 companies (8%) reported on social performance. The findings, published in ACCA Malaysia’s study “State of
Corporate Environmental and Social Reporting in Malaysia 2004", showed that few companies made reference to any sort of social or environmental policy statement within its reporting. According to the study, 43 percent of the companies reviewed reported to some extent on social performance, with 26 percent promising that they would do so in the future. For many Malaysian companies, commitment to CSR is expressed in terms of charitable giving. Figure 1 illustrates that the major drivers for this increased reporting were (in addition to growing awareness), 'business case' issues such as reputation/brand enhancement, promoting shareholder value, reducing risk and complying with legislation/regulation in Malaysia.

![Figure 1: Drivers of Malaysian interest in corporate responsibility (2004)](source: ACCA Malaysia, 2004)
Mohamed Zain and Mohammad (2007) longitudinal study of CSR in Malaysia identified the trend of CSR disclosure over 1996 to 2005. The period of study also includes the Asian financial crisis i.e. 1998 to 2000. Annual reports for 10 years, from 1996 to 2005, of all Malaysian main board listed companies were included in the sample. However, only 225 companies had complete set of ten annual reports required. A total of 2250 annual reports were examined. Via content analysis, social information is measured for four major areas: human resource, community involvement, product and environment. Almost all the companies (218 out of 225) disclosed CSR in at least one out of their ten annual reports. Only 170 companies (75.5%) disclosed CSR in all the ten years from 1996 to 2005 (see Table 1 above).

The number of companies disclosing CSR increased every year (Figure 2 below). In 1996, only 170 companies disclose CSR information and by 2005, the number of companies disclosing increased to 218. The amount of CSR disclosure also increased every year. In 1996 the average number of sentence per company is only 8.3 but increases to 19.8 in 2005. This shows that CSR is getting a
foothold in Malaysia. The most popular theme is human resource. Almost all companies disclosing CSR information discloses on human resource (with the exception of year 1997 and 1998). Information on community is second, followed by information on the environment and the least favorite theme is information on product. It is interesting to note that while the number of companies disclosing CSR and the theme human resource increased every year, disclosure on other themes decreased during the period 1998 to 2000 (Asian financial crisis period) and picked-up again in 2001. The data suggest that while information human resource information is high on companies' priority list, community, environment and product information are affected by the financial crisis. This shows some companies do not participate much in the community and environmental activities during the crisis period.

![Figure 2: CSR Disclosure](image)

**THEORIES**

The emergence of corporate social reporting has given rise to many theoretical and empirical investigations in the area. Despite the multiplicity of articles, they seem to deliberate about the one 'true' theoretical perspective of social disclosure. Some think that it is for the purpose of legitimizing the corporation (for example, Abbot and Monson, 1979; Patten, 1992) while others are of the
opinion that disclosures of social information are an integral part discharging accountability (Gray et. al, 1987, 1988, 1991, 1996; Roberts, 1991). There are those who believe that disclosure can be seen as a part of the management’s strategy of giving information to users so as to maintain or continue the success of the company (Roberts, 1992) whilst others argue that accounting reports are social, political and economic documents representing a proactive attempt by an organization to portray its own view of its social and political constituency (Gray et. al, 1995a). In sum, CSR has yet to find a unifying paradigm.

**Social Contract**

The theories of social contract have been widely used in the social responsibility literature and are emerging strongly as a focal point in social accounting studies (Patten, 1992; Roberts, 1992; Gray et al., 1987). The concept of the social contract in corporate social reporting assumes that (1) society is dynamic and is forever changing and evolving; and (2) power is unequally distributed between corporations/institutions and society. Therefore, in order to achieve collective goals, society accepts some degree of overriding control over individual freedom whilst the failure to deliver the expected outcomes may justify a revolt on the part of the general society.

The social contract is an invisible covenant between the public and the organization whereby the organization is expected to deliver desirable ends to the public as a result of a transfer of legal rights from the public to the organization. It is also reflected in the notion of human rights where a firm agrees to perform certain function in return for certain desirable rewards. Individuals within society are, therefore, prepared to allow business organizations to exist because they provide benefits to the society. Business on the other hand, needs to be able to use resources from the society such as capital, labor and raw materials. Having identified the meaning of the term social contract, we turn our attention to accountability.
Accountability

Gray et al. (1987) introduced accountability theory in the field of social accounting, and then proceeded to construct a general framework of social reporting based upon the concepts of accountability and the existence of a social contract between the organization and various user groups in a neo-pluralistic society.

Accountability theory explains information disclosure practice in terms of rights and obligations of information providers and users or receivers. Accountability theory goes beyond the traditional accounting role of providing information for business decision-making. It also goes beyond the traditional stewardship function. It is concerned with providing information that satisfies a broader set of users (see Gray et al., 1987, 1988, 1991, 1996; Roberts, 1991). Gray et al. (1996) saw corporate social disclosure as a constantly changing notion designed to fill the gap between responsibility and accountability where the account or/agent and accountee/principal can have several relationships and also change and swap places. A corporation, for example, is accountable to the members of the community. Members of the community on the other hand may be the employees of the business and are accountable for their performance to the management while the management is accountable to the employees for complying with labor law.

Accountability theory establishes the users’ rights and the provider’s obligation to furnish information. Users of information should play an active role in asking for what is needed. The company then is to provide the necessary information. The company role on the other hand, needs to be a passive one. The company should furnish information when and only when needed (via a social contract) by the users. The company should not go beyond the scope of requirement that is providing or disclosing more than what is needed. When a company plays a more active role in disclosing information, then it becomes legitimate. For example, if an agent discloses information freely beyond what is required, then it should
not be thought as acknowledging and discharging a non-existent accountability (Gray et al., 1996), but, is rather for the purpose of legitimizing business.

Accountability theory assumes that we live in a perfect world. It assumes that the organization will supply, no more and no less, whatever information demanded by the users. However, this is not always the case. Companies often play an active role as information providers. This will lead us to legitimacy.

**Legitimacy Theory**

If a company is to survive, it must legitimize its existence in the eyes of the society. Social disclosure is an attempt to legitimize the company by projecting an image to the society that the company is socially aware (Abbot and Monson, 1979; Patten, 1992). Legitimacy theory assumes that social or environmental information is disclosed as a result of a reaction to the external factors. These factors may be social, economic or political. To legitimize an organization’s actions, social and environmental disclosures are made. Patten (1992) for example has linked the international rise in environmental disclosure, particularly within the petroleum industry, with a concern for legitimation. We can therefore see that social disclosures made by corporations are designed to please the readers or users of the financial statements. It is a form of advertising to promote or to enhance an organization’s image. It is no different from ‘window dressing’, or in attempts to attract the attention of users of information to a particular issue while diverting attention from the major issue.

The disclosure could also be seen as a reaction to a potential threat, for example, public pressure that may lead to legislation. The growth of environmental disclosure in the late 1980’s and 1990’s can be seen as an attempt to act as if in response to environmental pressure, but, actually represents an attempt to control the environmental agenda in order to permit business to make profit
CORPORATE SOCIAL RESPONSIBILITY IN MALAYSIA

(Gray et al., 1995). Gray et al. (1988) aptly summarized that financial accounting does not need legitimacy because it is bounded by law. Nevertheless, corporate social reporting on the other hand is not bounded by law. Hence, it needs legitimacy.

Management could easily distort social and environmental information. Company’s accounts can be a powerful tool in constructing an image of the company’s behavior. Managers therefore may seek to use these tools in an attempt to legitimize their behavior where actual behavior is at variance with stakeholders’ expectations. Ulmann (1985) stated that what companies report in their accounts with regards to social and environmental activities is not always an accurate portrayal of performance (also Rockness, 1985; Wiseman, 1982; Ingram and Frazier, 1980).

Stakeholder Theory

A stakeholder is defined as ‘any group or individual who can affect or is affected by the achievement of the firm’s objectives (Freeman, 1984). Gray et al. (1987) stated that:

“Stakeholder (community with respect to social concerns, community with respect to environmental concerns, employees, and consumers) has a right to particular information for a particular decision. Those with a ‘social’ interest or ‘stake’ in the organization should be provided with relevant information in social reports” (p 17).

Gray et al. (1991) determined several users’ needs characteristics. In stakeholder theory the parties are the organization and users of information, which are determined by habit, convention or assumption and the rights to information, determined by assumption or equated need. Stakeholder theory, as explained by Ullmann (1985) and Roberts (1992), is the management perspective of giving information to the users so as to maintain or continue the success of the company. The corporation’s continued existence and success need the constant support of the stakeholders. Since it is the
stakeholders who hold the power over the company's resources, it is therefore crucial that the approval of stakeholders is obtained, and the corporation's activities need to be adjusted to gain that approval.

Basically, stakeholder theory identifies the ability of management to evaluate and supply social and environmental information according to the demands of the more influential users. These demands are met when management identifies that the information is useful in decision-making. Failure to do so could result in overflow of information. Organizations are continually seeking ways to manage new and emerging issues with their stakeholders while attempting to assess the extent of the power of those stakeholders (Roberts, 1992). We can therefore see that stakeholder theory goes beyond the traditional decision usefulness theory and is more applicable to corporate social reporting. In decision usefulness theory, information is provided to the main users of the financial statements namely the financial analysts, creditors and bankers. Stakeholder theory advances a few steps further by recognizing external influences. These external influences may include society, consumers, lobby groups and environmentalists.

**Political Economy Theory**

In essence, the 'political economy' is the social, political and economic framework within which human life takes place (Gray et al., 1996). Cooper and Sherer (1984) stated that a political economy of accounting emphasizes the infrastructure, the fundamental relations between classes in society. Political economy recognizes the institutional environment that supports the existing system of corporate reporting and subjects to critical scrutiny those issues (such as the assumed importance of shareholders and the securities market). It represents a proactive attempt by the organization to portray its own view of its social and political constituency. Guthrie and Parker's (1990) political economy approach observed accounting reports as social, political and economic documents. They serve as a tool for constructing sustaining and legitimizing economic themes, which contribute to the corporation's private interest.
CORPORATE SOCIAL RESPONSIBILITY IN MALAYSIA

Corporations use these reports to provide information that serves the corporation's political or ideological goals. Corporations at times use these disclosures to define themselves and project beliefs, norms, values and perceptions. If such is the reason for disclosure, then why is it, during economic slowdown, corporations are not disclosing as much? Could it be that the company is not participating as much, or could it be that the company, during the 'lean years' does not believe that such disclosure is necessary? It could be argued, if such is the case, that information disclosed by corporations is only intended to attract public attention or enhance corporate image. On the other hand, if disclosure is intended to project a company's beliefs, norms, values and perception, then the information could have little or no value to the stakeholders in making economic decisions. Of course some companies may be disclosing information because of ethical reasons but this leads us into perceiving that the company is trying to deflect attention to escape pressures - organizations may want to be left alone by public pressure, governments, environmentalists and others. These groups, on the other hand, want to exert more control upon the organization via disclosure.

DRIVING FORCES

The focus of this section is to highlight the findings found in a study by Mohamed Zain (2004) entitled The Driving Forces behind Malaysian Corporate Social Reporting, which had been published in The National Accounting Research Journal.

Generally, amongst interviewees there is support for corporate social reporting. Most financial directors from the group of disclosing companies indicated that the driving force for social disclosure comes via indirect pressure from government. Enhancing the corporate image in order to take advantage of market opportunities is also a major factor in companies disclosing social information. Top management awareness and accountability were suggested by a majority of directors as an additional reason for disclosure.
However, the two previous issues could influence this latter reason. Financial analysts on the other hand believe that companies are disclosing social information largely as a promotional tool.

An interesting dimension that could influence corporate social reporting in Malaysia in future is from the government controlled organizations. In Malaysia, although many companies have been privatized, a controlling share is still held by the government. Apart from making profit, these companies are also expected to fulfill the government’s social obligations. The government has introduced policies that encourage companies to be accountable not only to the shareholder but also to the general public. These companies are expected to participate in social activities, discharge accountability and be transparent through disclosing social information.

So what is driving corporate social disclosure? Basically the driving forces for corporate social disclosure in Malaysia could be identified under several inter-related categories; market, government pressure, and culture. The influence for disclosure has somewhat followed the US pattern of development that is a reaction to market forces. The rapidly growing capital market in Malaysia has seen Malaysian society climbing the ladder of individualism. As a considerable number of Malaysian companies are still considered ‘young’ and small, many companies are focusing their strategy on strengthening their business by attracting more investors and increasing profit. Users of annual reports, particularly institutional investors, apart from using traditional information for decision making, are also asking for social information as indicated by some financial analysts. Reacting to market needs, a strategy adopted by many companies is to give the information demanded by these investors. Only two companies openly admitted adopting this strategy. Even though other companies interviewed denied adopting such a strategy, the focus of annual reports toward investors and the confirmation by financial analysts that they are using the information suggests otherwise. This is especially true of sensitive industries, for example the timber industry, particularly if they are trying to
capture or maintain Western markets. The financial analysts also support this view. This might suggest that companies are disclosing social information, consciously or unconsciously, as a result of pressure or demand.

Whereas, most financial directors interviewed denied that they were under pressure to disclose social information from any quarter, their reaction to the market and introduction of government policy suggests otherwise. Many directors agreed that the introduction of government policy had prompted them to participate in more social activities and to disclose more social information. This is quite different from the Western scenario. In Malaysia, the government appears to have a strong influence over companies. Policies introduced by the government have greatly influenced companies towards becoming socially responsible, participating in social activities and consequently disclosing social information. This suggests that companies are supplying social information to satisfy the stakeholder demands.

In Malaysia, even though the Malaysian government does not specifically ask for social information, the introduction of the caring policy has, unconsciously, pressured companies to disclose their activities, to show that they (companies) are in tune with the policy and participate in social activities. Conversely, the demands of the less powerful stakeholders, such as the employees and advocacy groups, are not properly met. The lack of information on products and the environment by consumer and trading companies, together with the focus of human resource information towards the investors rather than the employee provides evidence to support this view.

A majority of directors indicated that they disclose social information in order to discharge accountability. Accountability, in contrast to stakeholder theory, is the responsibility to account for actions for which one has social responsibility under an established contract (Gray et al., 1987). Traditionally, Malaysia has practiced the culture of a close-knit community, helping and caring for one
another. Islamic teaching where it is the responsibility of the stronger to help the weak further reinforces this culture. Many companies in their objectives and mission have adopted this culture, unique to Malaysia and other Muslim countries. Companies adopting this culture believe that they are accountable not only to the shareholders but also to the wider public. They believe that they have the additional responsibility to attend to the human, environmental and other social consequences of business activities that affect employees, consumers and local communities. In order to discharge accountability, companies adopting this culture are participating in many social activities and consequently disclosing social information.

From the interviews, it appears that many companies are disclosing social information because they want to help reconstruct the society by making themselves visible in the public eyes. However, how genuine are the companies' intentions? This belief is also consistent with the political economy approach where a corporation uses disclosure to define itself and projects its beliefs, norms, values and perceptions in order to serve its own political or ideological goals (Tinker and Niemark, 1987). Companies may disclose social information under the pretence of accountability but are in fact trying to project their image or trying to influence investors. Companies under the pretence of discharging accountability to the employees, for example, provided human resource information. However, it is already noted that appreciation to the employees, even though were disclosed by most companies, is mentioned just as a passing statement, which suggests that employees are not their targets. This information, according to the financial directors interviewed, is to satisfy the need of other users, particularly the financial analysts. Whilst the inclusion of community activities information in the annual report was said to help society reconstruct the organization and make more aspects of organizational life visible and transparent, it could also be interpreted as being for the purpose of enhancing the corporate image thus legitimizing business.
There is a very thin line that separates accountability and legitimacy theory. If a company plays an active role in providing more information than is required by the users, rather than acknowledging and discharging a non-existent accountability it is for the purpose of legitimizing business (Gray et al., 1996). It is evident that some companies are disclosing information that is not required by the users, for example, information on the community. Some financial directors stated that providing this information has a dual impact; apart from discharging accountability it also helps to promote the company's image.

Similar to their Western counterparts, companies would do almost anything to legitimize business. In a capitalistic world, companies take every opportunity to promote their corporate image. Since annual reports are considered the most accessible public document, they are a good vehicle to legitimize business by projecting the image that the company is socially aware and/or to hide/reduce the exposed side of the company to the social and political environment. Many directors interviewed admitted that one of the reasons for disclosing social information is to enhance their corporate image or as a marketing tool. The annual report is considered a public advertising document, which is widely exploited by a range of companies in the sample. Some financial directors and financial analysts also suggested that there could be a possibility, though remote, that companies are disclosing social information to camouflage their other activities.

Some companies disclosing social information suggested that the government policy of Vision 2020 and the caring society also influenced their disclosure. The introduction of government policy, even though it does not trigger social disclosure as indicated by many foreign owned companies, does encourage them to disclose more. Apart from disclosing social information in order to discharge accountability, this action could also be interpreted as trying to take a proactive approach towards influencing the public policy arena. It could provide a platform to lobby for policy changes and air managerial views.
Identifying the real intention behind corporate social disclosure is very difficult. The decision to disclose could be made for a variety of reasons. The corporate social reporting theoretical frameworks may shed some light. Political economy theory cannot be dismissed outright because the corporations’ action could be interpreted as trying to influence the public policy arena. Moreover, the companies’ action of projecting their beliefs and perceptions could be premised on political economy grounds. Legitimacy theory also cannot be dismissed because companies are also disclosing social information to enhance their corporate image and possibly camouflaging their activities. Gray et al.’s (1996) accountability framework may suggest that social disclosure is both viable and may contribute towards an understanding of social disclosure practices in Malaysia. However, whether the genuine intention behind disclosing social information is discharging accountability is questionable.

The Effect of Culture and Religion in CSR

This section provides discussion pertaining to the research study by Mohamed Zain and Mohammad (2006) entitled Corporate Social Disclosure: The Effect of Culture and Religion. This study was published as a chapter in a book edited by Caliyurt and Crowther, titled Globalisation and Social Responsibility.

Chandra and Greenball (1977) noted that managers are reluctant to disclose voluntary information because of costliness, lower information value, the fear of giving sensitive information in view of competition, and the risk of confusing the readership. Cheng (1976), on the other hand, believes that managers are not keen to disclose voluntary information because it will encourage society to demand yet more of the business organization, both in its social role and in the reports it issues. Just as important is probably the fact that management is not accustomed to providing social information and may simply dislike having to disclose information. Perry and Teng (1998) on the other hand cited three main reasons for non-disclosure: a lack of government pressure, a lack of perceived
benefit, and a perception that their organization does not have any environmental impact.

The arguments above are applicable to the Malaysian scenario; however, it is the differences in culture and religious beliefs that may have greater influence over the non-disclosure of social information in Malaysia (Mohamed Zain and Mohammad, 2006).

Perera and Mathews (1990) have applied their model of the relationship between accounting and culture to differences in the attention given to social disclosures among different countries. There is evidence that the social, economic and cultural differences between countries can be seen in the paths they have taken towards the development of social accounting (see Mathews, 1993). The US, with its open society and high place on the individualism ladder, for example, practices open democracy. This may explain why its social reporting development is directed towards consumers and the general public, whilst being market-driven. On the other hand, in Western Europe with its collectivist orientation, the development of social accounting is more influenced by institutional requirements and demands of employees and unions. Even though Malaysia is following the footsteps of developed countries, there are still a lot of differences between them such as economic development and practices, religious beliefs, culture and social values.

In many ways the eastern cultures are different from the West. Westerners consider the trait of pride, boldness, aggressiveness, frankness and familiarity to be assets. While this may be true in some parts of the world, it is not in the East. The virtues of humility, reservedness, modesty and consensus are greatly admired and respected. The Chinese and Malays for example, are modest in speech and rarely boastful. Even in speaking about their children or possessions they will talk in a deprecating manner.

Westerners often speak on a deep personal level. They strive for openness in their relationships with others. Because of this
desire to reveal themselves to those they care about, they speak freely of their emotions, feelings, and personal experiences. This is acceptable and even desirable in many Western cultures. However, in the Asian culture, much value is placed on being reserved. Even in close relationships it would be embarrassing to discuss matters of a personal or intimate nature. Here in the East, if one opens oneself, it is thought to be a sign of weakness or cowardliness. It is shameful to reveal one's inner being. The one who 'opens-up' is not to be trusted. Chinese culture is well known for its modesty. For example, a businessperson when asked about his business will almost certainly reply with ‘cukup makan’.

Asian cultures are more formal and traditional than the Western cultures. Asians appreciate and respect preliminaries and form. The Easterners often measure the importance of a deal by how much formality surrounds it, and how many preliminaries lead up to it. Westerners often make decisions in an atmosphere of informality, giving little time for preliminaries. Westerners often want to get straight to the heart of the matter, feeling that formality wastes time and money. In the Western culture, it is good manners to walk into someone's home with your shoes on, it is considered friendly to shake hands with all people of both sexes whom they meet, it is permissible to give objects with either hand; it is often a normal social friendliness to hug or kiss the host or hostesses when entering or leaving their homes. In Malaysia all these customs are taboos in one or more of the different ethnic groups.

Religion (see Ryan, 1971) and eastern customs and values (Gullick and Gale, 1986) teach Malaysians to be reserved, humble and modest as compared to the US or UK where the people are more aggressive and assertive. Islam and its laws govern the Malays' life, but are less dogmatic than those practiced in West Asia, and allow Malays to coexist with their non-Islamic compatriots. They normally live in a closely-knit community of villages or 'kampongs' where life revolves around the local 'surau'. Islam teaches its followers to do good deeds but prohibits boasting about it. For example, giving
alms is encouraged but informing others of such action is against the Tauhid.

\textit{O you who have attained to faith! Do not deprive your charitable deeds of all worth by stressing your own benevolence and hurting (the feelings of the needy), as does he who spends his wealth only to be seen and praised by men, and believes not in God and the Last Day: for his parable is that of a smooth rock with (a little) earth upon it—and then a rainstorm smites it and leaves it hard and bare. Such as these shall have no gain whatever from all their (good) works: for God does not guide people who refuse to acknowledge the truth (Al Baqarah:264).}

\textit{And (God does not love) those who spend their possessions on others (only) to be seen and praised by men, while they believe neither in God nor in the Last Day; and he who had Satan for a soul-mate, how evil a soul-mate has he! (An Nisa:38).}

Although there are some similarities between Malaysia and the West, the differences, particularly pertaining to religious beliefs, cultural and other values give rise to many uncertainties in the development of corporate social reporting. Nonetheless, it is the cultural factor such as modesty, secrecy and religion, which are the major hindrance against social disclosure (Mohamed Zain and Mohammad, 2006).

Some companies are not disclosing social information because of religious beliefs. In Islam, good deeds are greatly encouraged, but publicizing them is not allowed. Modesty, secrecy and religious beliefs appear to have great influence in corporate social non-disclosure. Secrecy, for example, had discouraged disclosure while misinterpretation of religious beliefs has also inhibited social disclosure. In order to promote corporate social disclosure, first it is crucial that the public should be more concerned about environment
and other positive values in life and that money is good but not everything. Until then, shareholders will realize that a corporation is just one of the citizens and therefore should behave like any good citizen would. Shareholders should invest in corporations that behave. When this happens, companies will be motivated to act in a desirable manner and most importantly disclose it in the annual report. Hence, in order for a race to advance, cultural changes are inevitable.

Secrecy is another value that one should do without. An example is the comparison between the openness (well-published and widely circulated) of research undertaken in Western culture with the work of bomohs and dukuns (Malay and village medicine man). If our bomohs and dukuns discover a potent medicine, they will keep its formulation a secret. They will not write-up their findings in medical journals. They will not undertake further research. Regardless of whether their discovery is valid or not, they will continue to claim its efficacy and keep the formulation a secret. When they die, their formulation will be lost (see for example, Ryan 1971). Today, medical knowledge is expanding by leaps and bounds because of the shared knowledge of the Western races. Sharing does not result in depletion. Therein lays the difference between the eastern culture and the culture of the West. These differences in culture and values, particularly the secrecy value, have resulted in non-transparency in communication and consequently lack of social information in annual reports. Information on equal opportunities and non-performing loans, for example, are still lacking in the annual reports. Openness and transparency should be practiced to promote social disclosure.

Many of the Muslim financial directors interviewed were reluctant to disclose social information because by doing so they fear of being perceived as boasting, projecting their company’s image and consequently could be branded as only interested in the pursuit of worldly wealth. Islam provides not just the spiritual framework for Malay life, but also the ethical, psychological and intellectual
foundations for the community’s worldview. However, many Muslims only see the spiritual aspect of life. Islam is not a ritualistic religion, which must be practiced without taking into consideration the rationale behind why something needs to be done and be done in a certain manner. Whatever Islam preaches, they are linked to the well-being of others. Islam does not urge the rejection of worldly wealth. There must be a balance between this and the life-after. Thus, Muslims are asked to work as if they are going to live forever and to perform religious duties as if they are going to die the very next day. What Islam demands is not rejection of the worldly wealth but awareness that there is a final destination which is life-after. This awareness should promote positive attitudes towards the present life, since that would ensure happiness in the life-after:

“And when ye have completed your prayers, disperse through the land and seek the bounty of Allah and remember Allah constantly, that ye may achieve success” (Al Jumu’ah:10).

Zinkin (2004) made a marvelous comparison between UN Global Compact as business behaviors and Islamic values (see Table 2 below). Allah’s creations are a gift for all. Not to appreciate and use this gift is being ungrateful to Allah. Appreciation and gratefulness not only should be expressed in prayers but also in practice (actions, words and writings). Information on the environment sustainability therefore should be the kind of information that must be disclosed by all Muslim companies not only to discharge accountability, but also to fulfill their religious obligations.
### Table 2: Business behaviors and Islamic values

<table>
<thead>
<tr>
<th>UN Global Compact</th>
<th>What Islam Has to Say</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Human Rights</strong></td>
<td></td>
</tr>
<tr>
<td>• Principle 1: Business are asked to support and respect the protection of international human rights within their sphere of influence</td>
<td>I have made oppression unlawful for Me and you, so do not commit oppression against one another. <em>Shahih Muslim</em>, Vol. 3, No 6254</td>
</tr>
<tr>
<td>• Principle 2: Make sure their own corporations are not complicit in human right abuse</td>
<td>'Help their brothers whether he is an oppressor or being oppressed i.e. if he is an oppressor he should prevent him from doing it, for that is his help and if he is oppressed he should be helped (against oppression)'. <em>Shahih Muslim</em>, Vol. 3, No 6246</td>
</tr>
<tr>
<td>• Labour</td>
<td></td>
</tr>
<tr>
<td>• Principle 3: Business is asked to uphold the freedom of association and the effective recognition of the right to collective bargaining</td>
<td>'Your employees are your brethren upon whom Allah has given you authority. So if one has one's brother under his control, one should feed them with the life of what one eats and clothe them with the like of what one wears. You should not overburden them with what they cannot bear, and if you do so, help them in their job. <em>Shahih Muslim</em>, Vol. 3, No 4093</td>
</tr>
<tr>
<td>• Principle 4: The elimination of all forms of forced and compulsory labour</td>
<td>Allah (SWT) says: 'I will be an opponent to 3 persons on the Day of Judgment: One who makes a covenant in My Name, but he proves treacherous, One who sells a free person (as slaves) and eats the price, And one who employs a labourer and gets the full work done by him but does pay him his wages. <em>Shahih Bukhari</em>, 3:2</td>
</tr>
</tbody>
</table>
**CORPORATE SOCIAL RESPONSIBILITY IN MALAYSIA**

**Principle 5:** The effective abolition of child labour

**Principle 6:** The elimination of discrimination in respect of employment and occupation

**Principle 7:** Business are asked to support a precautionary approach to environmental challenges

**Principle 8:** Undertake initiatives to promote greater environmental responsibility

**Principle 9:** Encourage the development and diffusion of environmental-friendly technologies

---

No Arab has superiority over any other Arab and no non-Arab has any superiority over an Arab; no dark person has superiority over a white person and no white person has superiority over a dark person. The criterion of honour in the sight of Allah is righteousness and honest living. *The Prophet's Last Sermon*

<table>
<thead>
<tr>
<th>Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principle 7: Business are asked to support a precautionary approach to environmental challenges</td>
</tr>
<tr>
<td>Principle 8: Undertake initiatives to promote greater environmental responsibility</td>
</tr>
<tr>
<td>Principle 9: Encourage the development and diffusion of environmental-friendly technologies</td>
</tr>
</tbody>
</table>

— Al A'raf: 31

— Shahih Muslim, 3764


Muslim directors are also not very keen to disclose information concerning charitable works for fear that their good deeds would not be accepted by Allah (Mohamed Zain and Mohammad, 2006). Islam, however, does not forbid disclosure of good deeds; it is the intention that is of the utmost importance.

“If you do good deeds of charity openly, it is well; but if you bestow it upon the needy in secret, it will be even better for you, and it will atone for some of your bad deeds. And God is aware of all that you do” (Al Baqarah:271).
"Those who spend their possessions (for the sake of God) by night or by day, secretly or openly, shall have their reward with the Sustainer; and no fear need they have, and neither shall they grieve" (Al Baqarah:274).

Indeed, one should view disclosing good deeds or other social information for the purpose of informing the public or portrayed as ‘Dakwah’. Finance Director of Bank Islam Malaysia Berhad, during the interview, in a study by Mohamed Zain and Mohammad (2006) particular said that:

“Social information is disclosed to spread Islamic teachings or ‘Dakwah’. Everybody does it (promoting or enhancing the corporate image) whether intentionally or not...In our annual report, we disclose CSR information as a sort of Dakwah in the financial world which underlines our philosophy and corporate mission”.

From the above we can see that participating in CSR activities are in accordance with the teachings of Islam. Disclosing information about it will be a form of Dakwah and therefore, must be encouraged.

Economically Malaysia is following the footsteps of the developed nations. However, when it comes to cultural and religious belief, a tremendous gap still exists. From the interviews we noted that while some companies are trying to follow what their counterparts in the West are doing, others are reluctant due to their cultural and religious beliefs. When it comes to corporate social reporting, Malaysian companies are still lagging behind compared to their western counterparts. In order to become a developed nation certain Western values must be adopted, particularly openness, transparency, equality, quality consciousness and environmental friendly sensitivity.
THE GAP AND CLOSING IT

Mohamed Zain, Mohammad and Alwi (2006) conducted personal interviews to investigate the perceptions of two actors in the exchange of social information between companies and capital markets – the ‘preparers’ and the financial analysts. Three groups of respondents were selected:

1. Financial directors from companies disclosing CSR information;
2. Financial directors from companies not disclosing CSR information; and
3. Financial analysts

From the interview, human resource information is the most popular area for disclosure because most companies consider their employees as their main asset and strength. However, human resource information disclosed in the annual report does not seem to be targeted to the employees but is rather designed to catch shareholders’ or potential investors’ attention. Financial analysts’ agreed that they are using human resource information for decision-making. They however noted that information provided by companies are aimed at catching the eyes of the readers or projecting employees information as an image enhancing tool rather than appreciating the employees and providing useful information such as amount spent on training and safety records. Information on the community is also well covered by most disclosing companies. Whilst most directors noted that they disclose this information because they participate in a lot of social activities, an interesting additional reason for disclosure is that they wanted to please the politicians. This is particularly true for government-controlled companies. Information on products and the environment is largely still lacking. Financial analysts indicated that they would like more information on products and the environment to be included in the annual report. For the few companies disclosing information,
competitive pressures appear to be the driving force, whilst in the case of the environment the apparent aim is to inform shareholders that the company is complying with regulations.

From the interviews conducted, we can clearly see that there is a communication gap between the users and the preparers of annual reports. The preparers appeared not to be in communication with the users and vice versa. The preparers seldom provide the information needed by the users and the users seldom communicate to the preparers the information needed. Let us now consider some possible ways to begin to close the gap.

The Accounting Profession

The accounting profession has perhaps the most important role to play in promoting corporate social disclosure. Initially, the profession needs to identify what are the information requirements of users, and what information can, realistically, be supplied by preparers. The profession must be the mediator between the two parties. In order to make the social information disclosed relevant, significant and fair and if the standard of CSR is to be raised, proper guidelines should be formulated by the accounting profession.

Medley (1997), a practising accountant in Australia noted that many accountants today do not consider social or environmental issues relevant to their profession. They believe that social information cannot be quantified and is simply a tool to enhance corporate image. Similarly in Malaysia, some of the financial directors interviewed noted that accountants should not be involved with subjective matters such as CSR and it should be left to the public relations department within companies. In an era of increased social and environmental awareness and business scrutiny, corporate reports may be having an appreciable effect on investment decisions. External verification of this information would lend substantial credibility to this new trend in corporate communications and would benefit the investing public by providing assurance on the relatively new form of disclosure in an increasingly complex investment marketplace. Accountants
should have a role in attesting to these disclosures. It is, however, sad to note that some of the financial directors interviewed had not even heard of social accounting/disclosure. After explaining to them the meaning of the term, they agreed that CSR is essential for company development and as a demonstration of responsible corporate behavior. Therefore, there is clearly a need to assimilate this knowledge to them. The question is how? I believe academia provides one avenue where we can supply knowledge. Academicians and the professions need to go hand in hand in promoting corporate social reporting. As an example, little has been known about how managers with responsibilities for environmental affairs acquire their knowledge and expertise. During the past decades, it has become clear that industry’s environmental responsibilities have grown with alarming speed, often threatening the very existence of companies faced with increasing financial liabilities. By contrast, the education and training of future and existing managers has generally lagged behind. I believe that we need to link research with teaching and teaching with practice through the development of the curriculum. In Malaysia, most accounting students are not yet exposed to social reporting. In order to promote CSR, they need to be exposed to this through properly designed curricula.

Universities and Schools

Institutions of higher learning and schools both have a very important political role to play and a role as opinion-makers. Institutions of higher learning, which produce the key decision-makers of tomorrow, are in a strong position to play an important role in education, research, and policy developments within the society. This gives the social partners a major responsibility to increase the awareness, knowledge, and skills needed to realize social balance and an environmentally more sustainable future. Institutions of higher learning have long been able to provide highly competent and well-tested frameworks and approaches for handling complex tasks. However, not many of the institutions offering Bachelors or Masters Degree within Malaysia have fully integrated the CSR and the environment into existing curricula. Therefore, the importance
of educators’ and institutions’ roles and responsibilities in teaching values and attitudes should be strongly emphasized. Additionally, it should also be emphasized that institutions of higher learning have a responsibility to stay ahead of business in order to provide the community in general and the business community in particular, with the necessary means to cope with problems both before and after they occur. This implies that it is not sufficient just to teach what is practiced, but also to foresee what will be practiced.

They say that ‘Today’s seed will be tomorrow’s crop’. We need to invest in our children because they will be the leaders and CEOs of tomorrow. We need to educate our children the importance of being socially responsible, ethical and having religious values. Academics must therefore, play a major role in inculcating these values. Curricula need to be revised to incorporate these traits and values.

**Government**

The Malaysian government has taken tentative steps towards promoting disclosure. Introduction of the ‘Caring Society Policy’, ‘Vision 2020’ and legislation on pollution control, environmental impact assessment, industrial safety and employee welfare, amongst other things, has brought home to companies the importance of CSR. The government, however, still has a larger role to play. The decision of whether to impose or not to impose regulations on matters such as the environment would greatly affect the disclosure of social information.

Environmental self-regulation has often been cited as an (opposite) option to environmental regulation, begging the question as to whether the choice is so clear-cut. This in turn depends on which side one is on. Self-regulation is based on the idea that environmental problems are best dealt with through the market system i.e. practical solutions to industrial environmental problems are best dealt with by the polluters themselves, since they have both the know-how and the money necessary to solve them. However, abstaining from public
environmental regulation and leaving matters entirely in the hands of industry will neither ensure that the general process of change towards a more sustainable development proceeds fast enough nor that it will be efficient enough. First of all, such a strategy does not encompass the considerable number of environmental problems caused by private households. Second, it will not prevent from 'free-riders' from cynically exploiting the good will and intentions of concerned corporations. Third, some very harmful wastes, such as radioactive wastes, gene-manipulated/genetically engineered materials, chemicals etc., need to be strictly accounted for and controlled.

Re-education is also necessary to make companies and the public aware of the importance of moral, ethical and religious values. Many issues of rights and responsibility, freedom and social justice, and ethics need to be explored as part of the shared values within the society. These issues must be instilled in the nation's mind in order to become an ethical society. Corporate social reporting would be best promoted when the nation is ethical.

The Malaysian government has played its part by setting up rules and regulations. The National Integrity Plan (PIN) was set-up and Malaysian Integrity Institute established, to monitor economic progress that is consistent with good personal values and corporate ethics. CSR was emphasized with the introduction of the Malaysian Business Code of Ethics and the Company Directors code of ethics. The launch of the Silver book or Initiative 5, which covers corporate social responsibility, is part of the GLC transformation program. The Silver Book is a guide that defines donations, contributions and other monies that are given out by GLCs in giving back to society. CSR activities must be in line with their business objectives and corporate philosophy, as well as enhance stakeholder and shareholder value.
Companies

In order for a company to disclose social information, it must first of all be aware of its social responsibilities and participate in social activities. It is therefore of the utmost importance that the top management is aware of their responsibilities. It is important that the companies who want to implement environmental and safety standards have the support of all corporate employees. Analysts are now beginning to recognize that financial value arises from strategies such as sustainability, environmental protection and pollution prevention, especially as environmental risks are reduced. In order to achieve this, employee commitment could be encouraged by means of a multitude of approaches, of which internal training is extremely important. Companies could also develop training courses for their suppliers in order to ensure a higher degree of compliance with internal environmental standards. Corporate education activities could also involve external stakeholders and schoolchildren. Companies could even develop a total teaching package for secondary schools and establish advisory and/or working groups on business education and training programs.

Except Singapore, Malaysia is ahead of many countries in the region particularly the ASEAN region. Many corporations have embraced CSR. They have participated in a lot of CSR activities. However, corporations can do more by incorporating CSR in their business philosophies, values and objectives. Hence corporations should set their CSR objectives, measure their performance, and have that performance independently audited.

Bridging the social information gap needs the co-operation from all parties involved. The users need to identify the kind of information they need and the preparers need to communicate what information they can realistically provide. To make sure that the information provided is accurate and credible, the accounting profession needs to play a role in formulating guidelines and standards. Also the profession needs to communicate with the
universities and academicians in developing a suitable curriculum to link teaching with research. Universities, on the other hand, need to develop a curriculum that fits with what is practiced and foresees what will be practiced. Apart from re-educating the public and companies on the importance of moral, ethical and religious values, the government will have to weigh and decide whether to impose environmental regulations or not. For their part, companies will have to be proactive in increasing awareness in social responsibilities, providing training and developing corporate education activities. A message that all companies should adopt would be 'social activities discharge public accountability and disclosing such activities could provide a competitive edge'.

Financial resource is not the only criterion to ensure success to any project or program. Commitment of the people involved is important. CSR cannot be done alone. Support and cooperation from all is needed; governments, NGOs, educators, civil society organizations, and academics.

THE WAY FORWARD?

The emergence of corporate social responsibility in Malaysia has been closely linked to that country’s development plan, i.e. Vision 2020 and the government’s policy of enhancing standards of corporate governance and business ethics. Vision 2020 has nine attributes and three of them relate directly to the principles of CSR namely a moral and ethical community, a fully caring culture and an economically just society. To show its commitment, the Malaysian government has introduced the National Integrity Plan (PIN) and established Malaysian Integrity Institute. The Ministry of Domestic Trade and Consumer Affairs and Companies Commission of Malaysia have placed significant emphasis on CSR with the introduction of the Malaysian Business Code of Ethics and the Company Directors code of ethics. Malaysia has made it mandatory for every corporate director to undergo annual reorientation training programs, so that they would be able to cope with the changing
dynamics of globalization. Also, it is mandatory that the corporations appoint independent directors equivalent to one-third of their boards members and that they must get themselves rated for corporate governance annually, besides the quarterly report on their corporate performance.

Corporate social responsibility is part of the GLC transformation program during the recent launch of the Silver Book, which is a core part of the 15-year national mission to 2020; as the Government pushes the envelope further to move the economy up the value chain. It has three key objectives – to clarify expectations on the GLCs’ contribution to the society, to guide the GLCs in evaluating their starting position in contributing to society, and to provide the GLCs with a comprehensive set of tools, methodologies and processes to proactively contribute in a responsible manner while still creating value for their shareholders. The Silver Book is a guide that defines donations, contributions and other monies that are given out by GLCs towards giving back to society. The book also defined how GLCs should rank donations, in terms of objectivity, and provided a structured framework for GLCs to follow. The Initiative establishes clear standards or benchmarks for GLCs to aspire, and targets set for GLCs in each Initiative, such that GLCs are clear as to what is required of them and can calibrate their performance accordingly. This initiative is pushing the boundaries by setting standards far greater than that set by even private sector companies. Under the Silver Book guidelines, GLCs’ CSR activities must be in line with their business objectives and corporate philosophy, as well as enhance stakeholder and shareholder value. GLCs are expected to formulate a comprehensive policy on their contributions to society that goes beyond corporate philanthropy.

In spite of its various improvements, CSR is yet to be successfully implemented. So what will the future be for CSR in Malaysia? It is becoming more widely recognized that sustainability is a value-added factor. The positive correlation between sustainability and financial performance will provide an enormous boost to the sustainable investment sector. Thus, companies need
to proactively integrate their CSR strategy into their business operations. Consumers now have become more discerning, not only in scrutinizing and making their choices based on the financial value of a product, but also on the intrinsic values that the product or company represents. While companies seek to derive competitive advantage and responding to perceived pressures from the market, they realized that the corporate philanthropy is not enough. They need to evolve to become an integral part of corporate strategy.

The new millennium saw improvements in the company's annual reports. Large Malaysian companies have included corporate culture and values as their philosophy, mission and vision, which are reflected in their CSR activities, social and environmental targets and the verification by third parties. Interestingly these culture and values and other improvements are exported and adopted in their projects and subsidiaries overseas. Companies are expected to incorporate environmental and socially responsible statements, values and philosophies into strategic documents such as annual reports, social reports, environmental reports and sustainability reports and provide the tactical framework to enable its implementation. We can expect an increasing number of companies incorporating their corporate mission, philosophy and values in their annual reports. These values are normally inclined toward social responsibilities. Previously, many companies are disclosing CSR activities with the need to legitimize their business but their CSR disclosure now simply show that they are goal congruent. Company culture and values are interpreted through the mission and philosophy of the business and communicated through their annual reports and other documents. Proven a success in Malaysia, local giant companies such as Kumpulan Guthrie, Sime Darby, Petronas, IJM and YTL have shown great improvement in their CSR such as the philosophies and CSR values. They are exporting the Malaysian cultures and values to their subsidiaries abroad. Another marked improvement in the quality of CSR disclosure is that companies are now setting their social responsibility goals and targets. They now monitor and report their achievements against targets and to some extent their non-compliance too.
As mentioned above, more and more companies are disclosing their CSR activities. To add credibility to their environmental and social reports, several companies choose to get their reports verified by outside parties. In addition the verifier may be able to offer advice and suggestions to improve both performance and reporting. Given that environmental and social reports are voluntary, there is generally no requirement for the report to be independently verified. The voluntary nature of reporting and the lack of standards mean that the quality of reports varies. The variety of assurance reports issued in relation to them can cause confusion in the user. The government and standard setters will have to play a bigger role in dealing with this issue. Currently, voluntary reporting can bring real benefits to the company, perhaps a good preparation for the future if reporting finally becomes mandatory.

The nature, the type and the impetus for disclosure for CSR are ever changing. Shell, in its Profits & Principles report, notes that the world is moving from a ‘Trust Me’ culture (where companies can rely on society’s broad acceptance that they act in good faith), to a ‘Tell Me’ culture (where society wants to be told what is going on) to a ‘Show Me’ culture (in which companies have to demonstrate their serious intent to change for the better). Malaysia is quickly moving from ‘Trust Me’ culture to ‘Tell Me’ culture. Soon the stakeholders would compel corporations to shift to ‘Show Me’ culture.

One of the most significant CSR initiatives was the launching of Malaysia Environmental Reporting Awards (MERA), then, Malaysia Environmental and Social Reporting Award (MESRA) and recently changed to Malaysia Sustainability Reporting Award (MaSRA). MaSRA, modeled on the ACCA’s UK Environmental Reporting Awards (ERA) awards scheme, is to encourage voluntary environmental reporting practices among organizations in Malaysia. In the United Kingdom, CSR gathered pace after the ACCA introduced its award scheme became a standard practice. Even though it took time to ‘catch on’, Malaysia is expected to emulate the impact of the UK award. ERA scheme has proved so successful
because of the way they used the mainstream media to promote the good guys. The ACCA managed to raise awareness of CSR and stressed the positive side, demonstrating how it could help the company look good rather than emphasizing the negative aspects.

Perhaps the best way forward for CSR is by incorporating religious values in business. Islam is probably the most pro-business of all the world’s major religions as it recognizes that wealth is to be distributed equally. In Islam, social responsibility was not a new concept as Muslims have an in-built value system that requires everyone to be responsible towards their neighbors and society. CSR as preached today is actually consistent with the teachings of Islam since 1,400 years ago. CSR that is being practiced by businesses actually underlines those values. Datuk Zarinah Anwar, CEO of Security Commission, chairing a session on Islamic Perspective on CSR (2004) at a conference said:

"Islam talks about justice and equity, transparency and accountability, mercy and passion and in business even right down to the concept of human capital management".

The then Deputy Prime Minister, Datuk Seri Najib Tun Razak at the same conference said:

"For Muslims, the concept of CSR is not something new as responsible investment is a religious duty rather than choice. We should be leading the way."

We have accepted the fact that business and society are equal partners in the advancement of the greater community. Business is not solely about making profits but it is also about people and values. It therefore makes sense for business to operate on universal values. Businesses need to subscribe to moral and ethical practices. Businesses also need to nurture a system of shared beliefs that will translate into socially responsible behavior. More importantly, we
CORPORATE SOCIAL RESPONSIBILITY IN MALAYSIA

need to believe that companies that have successfully incorporated CSR into their business operations have reaped. CSR has caught on. It has been endorsed by a substantial and growing number of businesses, especially multinational enterprises, academics and commentators, NGOs, investment institutions, consultants and international agencies. Even though the people’s sensitivity towards the environment and CSR is just beginning, we still have a long way to go. We need to find new ways to promote CSR. With the recent launch of the Bursa Malaysia CSR Framework for Public Listed Companies (PLCs) more companies are expected to join the CSR bandwagon.

REFERENCES


ACCA (Association of Chartered Certified Accountants), (2002), The State of Corporate Environmental Reporting in Malaysia, London: ACCA.

ACCA (Association of Chartered Certified Accountants), (2004), State of Corporate Environmental and Social Reporting in Malaysia, London: ACCA.


CORPORATE SOCIAL RESPONSIBILITY IN MALAYSIA


