

MALAYSIAN ACCOUNTING REVIEW

Contents

Earnings Management and Deferred Tax

Corporate Social Reporting in Malaysia: A Political
Theory Perspective

The Implication of Tax Rates on Corporate Capital Investment

Corporate Governance, Professional Regulation and Audit Quality

Professional Students' Technology Readiness, Prior Computing
Experience and Acceptance of an E-Learning System

Accounting Students' Perceptions of Effective Teaching Methods and
Instructor Characteristics: Some Malaysian Evidence

Voluntary Annual Report Disclosures by Malaysian
Multinational Corporations



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C O N T E N T S

- 1** **Earnings Management and Deferred Tax**
Rohaya Md Noor
Nor'Azam Mastuki
Zanariah Aziz
- 19** **Corporate Social Reporting in Malaysia: A Political Theory Perspective**
Azlan Amran
S. Susela Devi
- 45** **The Implication of Tax Rates on Corporate Capital Investment**
Nor Shaipah Abdul Wahab
Norhani Aripin
Kamil Md Idris
Ayoib Che Ahmad
- 65** **Corporate Governance, Professional Regulation and Audit Quality**
Alan Kilgore
- 85** **Professional Students' Technology Readiness, Prior Computing
Experience and Acceptance of an E-Learning System**
Lai Ming Ling
Chong Moi Moi
- 101** **Accounting Students' Perceptions of Effective Teaching Methods and
Instructor Characteristics: Some Malaysian Evidence**
A. H. Fatima
Nik Nazli Nik Ahmad
Anita Mohd. Nor
Putri Nor Suad Megat Mohd Nor
- 129** **Voluntary Annual Report Disclosures by Malaysian Multinational
Corporations**
Fathyah Hashim
Norman Mohd Saleh

CORPORATE SOCIAL REPORTING IN MALAYSIA: A POLITICAL THEORY PERSPECTIVE

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This study explores the influence of the government in the development Corporate Social Reporting (CSR) in the Malaysian context. It explains CSR disclosure in annual reports of public listed companies using a political economy theory perspective. An examination of 201 annual reports of Malaysian companies reveals the influence of the government in CSR disclosure. Generally, the reporting practice of the companies sampled support political economic theory since both variables used in this study, government shareholding and dependence on the government, were found to be significant. The findings indicate that the government has a potential to play a significant role in spearheading CSR practice more intensively, as companies that are dependent on the government or with significant government shareholding are institutionalized by the government's aspiration and vision with respect to social and environmental issues. The findings reveal that employee and environmental themes are the most commonly disclosed information by those companies.

Keywords: *Corporate social responsibility, political economy theory, voluntary disclosure, Malaysia, CSR, government*

Introduction

Corporate Social Responsibility (CSR) disclosure, an extension of disclosure into non-traditional area by providing voluntary information in addition to the traditional financial performance information in their annual reports, can be traced back to 1970s. Recent studies acknowledged the increase of CSR disclosure in the annual reports of the companies both in developed and developing countries like Malaysia (ACCA 2002, Thompson and Zakaria, 2004). Even after more than three decades, researchers are still unclear on the motivation that lies behind the disclosure of CSR information. Overseas studies indicated that the main motivation is to enhance their corporate image (O'Dwyer, 2002,

2003; Adams, 2002) and it is to address the most influential stakeholders (Neu, Warsame and Pedwell, 1998). However, in developing countries like Malaysia where the awareness of CSR is low (Ramasamy and Ting, 2004), reporting is undertaken simply for the purpose of following the trends (Mohamed Zain, 1999; Amran and Susela, 2004). Very few had clearly discussed the factors that influenced the development of CSR particularly, the government's role except from the firm characteristics perspective (Haniffa and Cooke, 2002; Thompson and Zakaria, 2004; Che Zuriana, Kasumalinda and Rapiah, 2002).

In explicating the development of social and environmental disclosures in Malaysia, the local literature argues from a legitimacy theory perspective (Nik Ahmad and Sulaiman, 2004). However, evidence derived from the legitimacy theory studies are mixed in that they only partially explain the phenomenon. This study views CSR from a political economy theory perspective. The authors believe that local CSR phenomenon is more appropriately discussed from the political economic theory perspective given that there is less evidence that indicates the existence of public pressure or crisis that could pressure local corporations to disclose their social and environmental responsibility in the annual report (Amran, 2006).

Accordingly, the objectives of this study are to: (i) investigate the influence of the government in promoting local CSR development, and (ii) capture the diversity of dimensions disclosed by the companies that are dependent on the government or companies with significant government shareholdings.

The contributions of this study are important for several reasons. Firstly, it provides evidence of the government's seriousness in promoting CSR. It further illustrates the utility of strong government influence in extension of CSR. Therefore, companies which are directly linked to the government may be expected to lead the development of CSR in Malaysia.

The following section discusses the Malaysian CSR literature and the government influence in CSR. The theoretical framework and the development of the hypotheses are outlined thereafter followed by a discussion of the research methodology adopted. Finally, this paper discusses the findings of the study and concludes with suggestions for future research.

Literature Review

CSR In Malaysia

One of the earlier published CSR studies in Malaysia was conducted by Teoh and Thong (1984) who found that the social involvement by the companies were more extensive compared to their reporting. This is a consequence of the perception that there is no tangible benefit from extensive disclosure in the annual report and further, disclosure is not required by legislation.

Subsequent studies focus on the firm characteristics and the level of reporting, the themes and the type of news disclosed. Overall, the responsibility reporting status by Malaysian companies is noted to be low (Shireenjit and Zuani, 1998), although it is improving (Thompson and Zakaria, 2004). The low level of disclosure has been attributed to an absence of legislation (Teoh and Thong, 1984, Nik Ahmad and Sulaiman, 2004) and the business community's perception that their organizations do not have environmental impact. This implies that their level of awareness is still low (Perry and Teng, 1998).

In terms of the quantity of information disclosed, the average number of sentences disclosed by companies is 85 sentences (Thompson and Zakaria, 2004). The most disclosure made by a single company is 789 sentences and converting the total sentences disclosed to page, a total of 294.34 pages were disclosed altogether representing an average of 1.4 pages with the maximum number of pages disclosed being 14.59 pages (Zakaria and Isa, 2003).

Previous findings discovered that disclosure is declarative, narrative in nature (Thompson and Zakaria, 2004) and merely making references to general commitment (Nik Ahmad and Sulaiman, 2004). In terms of the themes, human resources have been the most disclosed themes. Among the firm characteristics found to be most significant in the Malaysian context study is 'size' other than factors like industry and profitability (Andrew, Gul, Guthrie and Teoh, 1989; Thompson and Zakaria, 2004). Andrew *et al.* (1989) in their explanation of size factors noted that large companies in developing countries were normally foreign-owned and because of their greater visibility, they were more likely to be subjected to scrutiny by the host government. Thus, greater social commitment and disclosure in the annual reports was one way of overcoming possible criticisms.

Whilst Malaysian CSR studies sought to explain the quantity of CSR information disclosed in the annual report by exploring size, profit and industry variables (see Shireenjit and Zuani, 1998; ACCA, 2002; Thompson and Zakaria, 2004; ACCA, 2004), none of such studies have explored the role of the Malaysian government and its influence on CSR disclosure.

Having noted that CSR reporting in Malaysia is increasing, subsequent research attempts to identify the motivations for disclosure, in addition to the firms' characteristics already identified. Prior studies from the developed countries indicate that CSR has increased over time due to certain factors such as existence of legislation, increased demands of pressure groups and ethical investors, occurrence of specific events, establishment of awards, increased economic activities, media interest, culture, societal awareness and politics (Deegan, 2002).

Among local studies that explore the drivers for CSR, further factors are identified, such as, the Malaysian code on corporate governance, privatization initiatives, business and marketing strategies, improving corporate image, vying for awards, to demonstrate responsibility and strengthening of stakeholder relationships, enhancing access to capital investment and also advancements in information and communication technology (ACCA, 2002)

Mohammad Zain (1999) in his quest to explain the motivation for CSR disclosure interviewed the local managers and his study highlighted the possible influence of the government, the desire to follow trend and a desire to be consistent with Vision 2020. Amran and Susela (2004) showed similar observations from their interviews of Malaysian managers in that disclosures were made to improve the company's image in the eyes of the government as well as the foreign partners.

Government Initiatives

This section illustrates briefly several initiatives undertaken by the government of Malaysia in supporting the CSR practices by both the public sector as well the private sector. The initiatives taken by the Malaysian government with regard to CSR is evident. There is an explicit social and environmental agenda in the Vision 2020. The ultimate aim of Vision 2020 is to establish a nation that is united, a Malaysian society infused by *strong moral and ethical values*, democratic, liberal and tolerant, *caring*, economically just and equitable, progressive and prosperous. Three of the nine challenges of Vision 2020 – a moral and ethical community, a fully caring culture and an economically just society; reflects the CSR principles. The Vision outlines five strategic objectives of which one of it is the need to enhance the standards of corporate governance and business ethics as well as improving the quality of life and the quality of the Malaysian citizens (Najib, 2004). Malaysia's National Report on UN's Agenda 21 recognised the importance of sustainable development. The detail of the Rio Summit and the Agenda 21 were incorporated and where appropriate, were integrated into the national planning process when the Sixth Malaysia Plan (1991-1995) was reviewed in 1993, and was also used to input into the planning process of the current Seventh Malaysia Plan, covering the period 1996-2000 (Hasan and Adnan, 2002).

Analysis of several ministers' speeches implied the concern addressed by the government in promoting CSR practices. The Deputy Governor of Central Bank of Malaysia stressed that "...the government's priority is to ensure that businesses and public activities pay heed to CSR issues such as eradicating poverty, conserving energy, combating deforestation, managing fragile ecosystems, protecting health and managing land resources" (Yakcop, 2004). The Science, Technology and Environmental Minister stressed that it was important for companies to demonstrate that they were fulfilling their social obligations to the environment and concluded that "(Since) companies seem reluctant to engage in some form of environmental reporting ... we (may) have to make it mandatory, amending the Environmental Quality Act 1974 if there is a need (to)" (Thompson, 2003). In addition to that, the National Landscape Department and the Department of the Environment have also taken the initiatives to support Tree Planting Group, a group of NGOs working together for the betterment of the environment.

To encourage socially responsible investment, two ethical funds were set up by the government in 2003 in promoting investment in companies which are not just profitable, but also must not be involved in tobacco, liquor and gambling as well as having socially accepted practices such as good corporate governance and environmental friendly (Yakcop, 2004). These funds often provide comparatively good financial returns as well

as additional social and environmental benefits that go beyond direct financial rewards to the investor.

Theoretical Framework: Political Economy Theory

Various theories were adopted in explaining the CSR practices by firms, and finding the most appropriate theory is not easy to uncover (Tilling, 2001) as it depends very much on the scope and the variable that the researcher intends to investigate. The main theory that has been used to explain the social responsibility and environmental disclosure in Malaysia are legitimacy theory (see Nik Ahmad and Sulaiman, 2004). This study intends to explain CSR disclosure from the perspective of political economy theory that has been little used in developed countries and no study so far was conducted in Malaysia from this perspective that views annual report as embedded in the complex relationship of society as a whole (Stanton and Stanton, 2002). For that reason, this study explains CSR disclosure in Malaysia by using a political economy perspective.

Although legitimacy theory can be viewed to be within social and political theory, the use of annual report for both theories differs. Legitimacy theorists view annual reports as a reactive document whilst political economy theorists perceived annual reports as a proactive document. Political economy perspective emphasizes the infrastructure or institutional environment that supports the existing system of corporate reporting, as well as the fundamental relations between classes in society (Stanton and Stanton, 2002). In this theory, the purpose of the provision of the information is viewed as much broader, being “designed to set and shape the agenda of debate and to mediate, suppress, mystify and transform social conflict” (Guthrie and Parker, 1989, pp. 346). Cooper and Sherer (1984) characterized the perspective into three features. The first is the recognition of power and conflict in the society, reflected in the distribution of income, wealth and power. Accounting reports operate for specific interest, but attention is drawn away from this by the classification used in corporate annual reports. The second characteristic is the historical and institutional environment of the society. Adoption of more emancipated view of human motivation and the role of accounting society is the third characteristic.

In adopting a political economy perspective, annual report is viewed merely as a proactive document, constructing and projecting a particular image and the targeted audiences could be wide i.e. multiple public, or responding to particular groups (Stanton and Stanton, 2002). Hence, the annual report is viewed as a statement of propaganda, as it is used to develop and maintain particular corporate images and to mention information as favourably as possible. Graves, Flesher, and Jordan (1996) contend that the pictures and gloss in the US annual reports function rhetorically to assert not only the specific value of public relations agenda of the individual companies, but the truth claims of the accounts themselves. It was suggested that annual reports are to persuade the report reader of the truth claims of the accounts and thus to perpetuate the values that reside in them. Following that, all factors external to the corporations can impact what is communicated within the annual reports. Following this, it is hypothesized that the government’s calling and aspirations do influence the matters reported in the annual report.

Hypotheses Development

Government Influence

The Malaysian government initiatives in response to CSR can be identified in Agenda 21 in the development, planning and monitoring systems, namely the five yearly Malaysia Developments Plans and the longer term Outline Perspective Plans is also many (Amran, 2006). Vision 2020 outlines that Malaysia becomes a fully developed country with emphasis on environmental sustainability that require Malaysia to ensure valuable natural resources are not wasted (Mahyuddin and Rao, 2003). As stated by Burchell, Clubb, and Hopwood (1980), from the political economy perspective, the annual report is viewed as a proactive tool in which corporate management influences and shapes what is important in society. In the case of companies that have government shareholding, they will act as an avenue to notify the society that the government is really committed with the social and environmental issue. This is part of their public relation strategy to persuade the annual report users that the government is serious in handling this matter. Thus the following hypothesis is developed.

Hypothesis 1a: There is a significant difference between companies that have high proportion government shareholding and the amount of Corporate Social Reporting.

Hypothesis 1b: There is a significant difference between companies that have high proportion government shareholding and the extent of Corporate Social Reporting.

A company which is dependent on the government contracts and projects will also try to convince the stakeholders of how committed they are in terms of addressing issues relating to social and environmental. They will react proactively by portraying image that favour the government's aspiration in establishing long-term and good relationship with the government. Dependence here does not imply that the company is depending completely and permanently to the business associate, but rather, the importance of the government contract in contributing to the company's sale or business operations.

Hypothesis 2a: There is a significant difference between a company that depends on government contracts and the amount of Corporate Social Reporting.

Hypothesis 2b: There is a significant difference between a company that depends on government contracts and the extent of Corporate Social Reporting.

Research Method

Sampling Design and Data Collection

This study adopts stratified random sampling by dividing the companies based on the sectors of the listed company in Bursa Malaysia. Altogether, there are 201 companies drawn randomly from each sector to ensure that all sectors are represented. The selection did not focus on the top companies as was done by the previous researchers (see Hackston and Milne, 1996, Zakaria and Thompson, 2004) for the reason that a mixed group of

samples would be useful in determining the influence of the government shareholding factor in enhancing CSR disclosure since all companies will be exposed to the external factors.

Dependent Variables

The proxies for the CSR are the amount and extent of CSR in the annual report. Prior studies had only focused on the amount of disclosure as the dependent variable (quantity) (Hackston and Milne, 1996; Haniffa and Cooke, 2002) and use narratives to further explain the extent or quality of the reporting. In this study, the amount of disclosure is the quantity of disclosure and a measurement tool was developed to assess the extent of disclosure. The extent of disclosure here simply means the total variation of dimensions of themes disclosed in the Annual Report. This is what is unique compared to other studies, in that, it quantifies the “qualitative” element. Content analysis is used to measure the extent and the quantity of corporate social responsibility disclosures. Content analysis is a popular method in assessing corporate social responsibility disclosures (Gray, Kouhy, and Lavers 1995a). Prior CSR studies (see Ernst and Ernst 1978; Guthrie and Parker, 1990; Hackston and Milne, 1996; Haniffa and Cooke, 2002; Raar, 2002; Zakaria, 2002; Thompson and Zakaria, 2004) used content analysis in measuring CSR.

Weber (1990) defines content analysis as a research method that uses a set of procedures

Table 1: Demographic Details of the Respondents

Industry membership	Main Board			Second Board		
	Total listed companies	Sample	Percentage %	Total listed companies	Sample	Percentage %
Industrial	130	27	20.77	128	32	25
Consumer Products	74	14	18.92	52	13	25
Construction & Infrastructure	49	12	24.49	16	4	25
Trading & Technology	135	36	26.67	55	15	27.3
Property & Hotel	96	23	23.96	2	2	1
Finance	58	11	18.96	0	0	0
Plantation & Mining	42	10	23.81	4	2	50
Total	584	133	22.77	257	68	26.46

to make valid inferences from text. Weber (1990) stated that the rule of this inferential process vary based on the interest of the investigator. This research technique is supposedly able to make a replicable and valid inference from data according to the context (Krippendorff, 1980).

In order to ensure the replicable manner of inference, a set of interrogation instrument, checklist and decision rules developed by Ernst and Ernst (1978), Guthrie and Parker

(1990) and Gray *et al.* (1995a) was used. Ernst and Ernst (1976), Guthrie and Mathews (1985), Guthrie and Parker (1990) and Gray *et al.* (1995a) had done a tremendous work in developing the interrogation instrument. Hackston and Milne (1996) had also constructed their own instrument which is based on the work. This study adopted the Hackston and Milne (1996) instrument in order to provide a reliable set of procedures to measure the disclosure of CSR as the reliability of the instrument was confirmed by Milne and Adler (1999) as well as to allow comparability with other CSR studies conducted in Malaysia (Zakaria, 2002; Thompson and Zakaria, 2004)

Quantity of Disclosure

Gray *et al.* (1995b) has raised immense concern on the unit of analysis for the amount of disclosure. Milne and Adler (1999) stated that in social and environmental disclosure studies, much of the discussion on the unit analysis confuses the issues of what should form the basis for coding with what should form the basis for measuring or counting the amount of disclosure. They added that these two are not same. Many of the researchers focus on how they count or measure and very few actually recognize that the unit of analysis forms the basis for their coding decisions. Milne and Adler (1999) proposed that using number of sentences as a basis for coding is far more reliable than other units of analysis. It seems that using sentences as the method to code and count the content of CSR could serve the purpose of this study. It has the advantage to be classified clearly as it carries explicit meaning made easier for the researcher to follow the decision rule (Milne and Adler, 1999).

Extent of Reporting

Counting the number of sentences does not provide an understanding of various types of information being discussed (that is, quality). This variable – extent of reporting, captures the diversity of CSR disclosures in the Annual Report. It is not intended that this variable measure the extent “*per se*” because by doing so, it excludes many other indicators that should be included in order to see the extent or quality of reporting. The “extent of reporting” variable captures the various dimensions being reported by utilising the Hackston and Milne (1996) checklist. The extent of reporting variable is operationalised to reflect the diverse dimensions of CSR disclosure reported in the Annual Report.

Earlier studies, (such as, Ernst and Ernst (1976) and Ng (1985)) identify the dimensions of social and environmental disclosure to include themes such as environment, energy, products/consumers, community, employee/human resources, and fair business practices, general /other. The dimensions are further separated into monetary quantification, non-monetary quantification, both monetary and non-monetary quantification, as well as declaration. Subsequent studies, such as Trotman (1979) and Guthrie (1983) modified the instruments to include additional dimensions. Further, Gray *et al.* (1995b) basing on Guthrie’s (1983) instrument, modified it by removing the dimensions pertaining to location in report, separating the employee/human resource theme into health and safety and

other employee information and adding value-added statement as well as news type. Hackston and Milne (1996) further modified the said instrument by separating different environmental activities, the mandatory and voluntary disclosure and the decision rule based on the Gray et al. (1995b) instrument. Thus, the dimensions listed in the Hackston and Milne (1996) instruments are as follows.

- i. Disclosure theme which consist of environment, energy, products/consumer, community, employee/human resources, general/other;
- ii. Evidence in terms of monetary quantification, non-monetary quantification and declaration
- iii. News types that includes good news, bad news and neutral news.

The above dimensions portray the quality of reporting of a particular company (Guthrie and Matthew, 1985).

Themes

Disclosure themes cover area of disclosure which are divided to six different areas namely environment, energy, products/consumer, community, employee/human resources, general/other. These areas of information represent each issue which pertain to the Corporate Social Responsibility. Companies disclose all of the above information in order to address the needs of different stakeholders groups.

Form of Disclosure

Form of disclosure reported is also analysed. Hackston and Milne (1996) classified the information reported; whether in the form of monetary quantification, non-monetary quantification or declaration. Hackston and Milne (1996) are very specific in categorising the evidence; information that reports monetary quantification on the CSR is classified under the monetary evidence. Some reporting information which is also quantitative in nature but not in the monetary value is being classified as non-monetary quantification. For example, it is quantified in numeric terms of weight, volume, size or any other measurements but not in the monetary form. Lastly, the declaration dimension refers to the reporting that is descriptive in nature.

Type of News

The last dimension captured by the Hackston and Milne (1996) instrument is type of news reported in the CSR. The news dimensions had been divided into three; good, bad and neutral. In order to determine whether information is good, bad or neutral, the information is viewed from the perspective of the stakeholders. For example, for the employee disclosure it should be viewed from the employee's perspective in order to determine the type of news reported whether it is good or bad news.

Equal Weighting

Similar classifications as in the Hackston and Milne (1996) instrument are used. However, it is noted that Hackston and Milne (1996), despite the detail classifications, do not assign a weight to each dimension. Thus, the data available allows only for a qualitative analysis. This study extends Hackston and Milne (1996) Milne's method by assigning a weight in order to quantify them so as to allow these dimensions to be tested as the dependent variable in the independent sample t-test which is discussed later.

In contrast, other prior studies such as Raar (2002); Hughes, Anderson and Golden (2001) and Eljido-Ten (2004) have assigned different weights to the different kinds of classifications. These studies, however, focus on evidence of the reporting. The treatment on the importance of the evidence is also mixed. Raar (2002) assigns the lowest rank to monetary disclosure without any justification or evidence. The highest rank assigned by Raar (2002) is for a disclosure that consists of qualitative, monetary and non-monetary evidence. Eljido-Ten (2004), following Hughes et al. (2001), assign the highest rank for quantitative disclosures and the second highest score for the non-quantitative disclosure. The least rank is assigned to the general qualitative disclosure or vague comments. These methods, however, focus only on the evidence of the disclosure and ignore the themes and news dimension. Thus, the completeness in terms of the variation of the theme and type of news dimension is left uncaptured.

In this study, no score is given to the different kinds of dimensions. All the themes, namely environment, energy, products/consumer, community, employee/human resources, general/other are treated as equally important. Prior studies show that the nature of the company influences CSR reporting (Cormier and Magnan, 2003). Thus, a company which is in the high profile industry would disclose more. It is acknowledged that the company is responsible to disclose their social and environmental information to the public but different companies might be institutionalized by different parties and thus disclose different themes of disclosure in their Annual Report. In this study, all themes are perceived to be equally important and hence equal weight is assigned to each. The more themes disclosed, the better the extent (quality). Therefore, in order to quantify the "themes" dimension, the number of themes disclosed by the company is the score for a specific company.

The rest of the dimensions are also treated similarly. The evidence namely, monetary quantification, non-monetary quantification and declaration and the news namely, good news, bad news and neutral news is treated as equally important. Monetary information alone is insufficient to provide good information to the user (Raar, 2002). Thus, non-monetary and descriptive information is needed to supplement it. The news disclosed whether good, bad and neutral news, are equally important too. By presupposing that information is valuable, this study assigns equal scores to these classifications. Thus, scores are obtained from the total number of classifications being disclosed by the company. For example, company B which discloses non-monetary, descriptive, good and neutral information is given four scores which represent four classifications being disclosed.

Furthermore, by treating the dimensions as equal it reduces bias to different stakeholders of the organizations. Different stakeholders might have different priorities on the themes, thus making it difficult to assign weights to them. For example, for the employees of the company, they might rank employee information as the most important theme compared to the others. This might not be similar to other stakeholders.

The total scores that one sample could obtain is thirteen (13) which is derived from the total number of themes, total number of evidence classifications and the total number of news classifications. This method is seen as measuring the total number of variations disclosed by the company. The more themes disclosed means that more aspects are taken into account into the reporting. The more classifications disclosed means the more comprehensive the reporting will be. Thus, the company deserves more scores. The lesser scores obtained by the company shows the lower variation of information and aspects disclosed by the company; therefore reducing the quality of reporting. Table 2 captures the quality of CSR score.

Table 2: Extent of CSR Score

Dimensions	Score	Sub-total
<i>Theme</i>		
1. Environment	1	
2. Employee	1	
3. Health and safety	1	
4. Products	1	
5. Energy	1	
6. Community	1	
7. General/Other	1	
Sub-total		7
<i>Form of disclosure</i>		
1. Monetary	1	
2. Non-monetary	1	
3. Declarative	1	
Sub-total		3
<i>Type of news</i>		
1. Good	1	
2. Bad	1	
3. Neutral	1	
Sub-total		3
Total		13

Hackston and Milne (1996) developed an extensive checklist of items under each of the theme dimension categories. The checklist is based on the earlier work of Ng (1985) and Ernst and Ernst (1976). It was further revised after several pre-testing. Hackston and Milne (1996) further developed a number of decision rules to facilitate a consistent interpretation of the checklist. (For details, refer to Appendix 1).

Measurement of the Independent Variables

Government Shareholding

This study employs government shareholding as one of the independent variables and a similar variable was used by Eng and Mak (2003) in their study of Singaporean companies. This variable is measured by using the proportion of ordinary shares held by the government of Malaysia, using the ratio of total shares owned by government to total number of shares issued gathered from the annual report of the sampled companies. Based on the political economy theory, companies 'owned' significantly by the government via these government agencies may have better CSR disclosure. Government shareholding can be directly held by the Ministry of Finance as well indirectly through holding by various government agencies in the listed companies, namely Khazanah Holding Berhad, Employees Provident Fund (EPF), Danaharta Nasional Bhd, Bank Simpanan Nasional and Permodalan Nasional Berhad (please refer to www.treasury.gov.my). According to Cormier and Magnan (2003), significant shareholding is for ownership of more than 20%. This is consistent with MASB 12, p. 4, paragraph 4 (now known as FRS 128) which stated that if "an investor holds, directly or indirectly through subsidiaries, 20% or more of the voting power of the investee, it is assumed that the investor does have significant influence". Hence, using dichotomous variable, companies with government shareholding of more than twenty percent are coded as one ('high') and otherwise zero ('low') as applied by both Cormier and Magnan (2003) and Eng and Mak (2003) in their studies.

Dependence on Government

The second variable differs from the government shareholding variable as it was found from the exploratory study (Amran and Susela, 2004) that not every company awarded government projects are owned by the government. Hartley, White, and Chaunday, (1997) measured the dependency of companies on government as the ratio of sales being transacted with the government over the total sales. However, this information is considered confidential and therefore, unavailable. Hence, it was not possible to obtain the breakdown of the sales from the local companies. Alternatively, 'a company dependent on government' is defined as a "company that receives major government projects, tender, privatization project and concession from government". For example, companies that received hospital support services privatization concession for a certain period and construction companies that were awarded projects by the government are considered as dependent on the government. Thus, from the analysis of the company profile and the annual report, by focusing specifically on 'Chairman's Statement' and "Review on Operations" describing the companies' sources of revenue, significant contribution to the company's revenue is taken as more than twenty percent of the total revenue. In determining the significant

amount, the ruling used in other studies such as Cormier and Magnan (2003) and Haniffa and Cooke (2002) is applied. Similar to the previous independent variable, a dichotomous variable is used, 1 for dependent and 0 for non-dependent.

Research Findings

Result Based on the Amount of Disclosure and Dimensions of Reporting

Independent sample t-test were carried out in determining whether any differences exist between the companies that are dependent with those that are not dependent as well as between the companies with high and low government shareholdings.

Dependence on Government

Table 3 summarises the t-test output for the various types of disclosures and the dependent to government variables. Computation of eta-squared was undertaken to determine the size effect for the independent samples t-test. Cohen (1988), cited from Pallant, (2001) came out with the guideline in interpreting the magnitude of the difference whereby 0.01 equals to small effect; 0.06 equals to moderate effect and 0.14 equals to large effect.

The overall disclosure of CSR reporting indicated that there is a significant difference in the mean score for a company dependent on government and company not dependent on government ($t = -2.53$, $p = 0.018$). However, the magnitude of the difference is small (eta-squared = 0.03). Further analysis indicated that there are four themes found to have significant differences between government dependent companies and non-dependent companies. They are employee, health and safety, community and product. This is consistent with previous findings by Haniffa & Cooke (2002) and Thompson and Zakaria (2004). Employee and health and safety have been the most popular themes since the earlier study conduct by Andrew et. al. (1989) and the reason being established is that it is the government's concern to improve the working conditions and living standards of the workers (Andrew et. al., 1989). Community involvement for local companies is also not a new thing. Teoh and Thong (1984) discovered that community involvement has been practiced by the local companies but most of them do not disclose. As the trend is moving toward for extra disclosure in the annual reports, thus community involvement could be the best story to report in addition to the product disclosure.

In terms of form of reporting, there is a significant difference in terms of the declarative form. This implies that most of the dependent companies' reporting is in the form of declarative statement. This finding is consistent with Nik Ahmad and Sulaiman, (2004) and Thompson and Zakaria (2004) which found that most of the reporting is general in nature and in declarative form.

Lastly, the companies that are dependent on the government tend to report mostly good news ($t = -2.069$, $p = 0.05$) and this is consistent with other previous studies (Thompson and Zakaria, 2004). The company CSR reporting is perceived by the preparer to be a public

Table 3: Output of t-Test between Dependence on Government Variable and Various Types of Disclosures and Quantity of Reporting (Overall)

DG/ Types of disclosure	Mean		Mean diff	SE diff	t-value	Two-tailed P	Eta-squared
	DG	NDG					
Themes							
Overall	65.080	21.932	-43.148	17.041	-2.532	0.018**	0.031
Environment	7.200	3.193	-4.007	3.405	-1.177	0.241	0.007
Employee	21.440	9.273	-12.167	4.595	-2.648	0.013**	0.034
Health and Safety	6.200	1.267	-4.933	1.912	-2.580	0.016**	0.032
Product	11.800	3.091	-8.709	3.830	-2.274	0.026**	0.033
Energy	0.000	0.079	0.079	0.149	0.533	0.594	0.001
Community	18.120	5.091	-13.029	6.330	-2.058	0.050**	0.021
General.	0.320	0.000	-0.320	0.320	-1.000	0.327	0.005
Form of disclosure							
Monetary	15.174	6.792	-8.382	5.669	-1.479	0.153	0.011
Non-monetary	6.696	2.493	-4.202	2.456	-1.711	0.100	0.014
Declaration	41.435	15.532	-25.902	13.975	-1.853	0.076*	0.017
Type of news							
Good	56.391	23.708	-32.684	15.795	-2.069	0.049**	0.021
Bad	0.391	0.298	-0.093	0.598	-0.206	0.838	0.000
Neutral	6.435	0.805	-5.629	4.772	-1.179	0.251	0.007

***Significant at 1% confidence level, DG = Dependent on government

**Significant at 5% confidence level, NDG = Not dependent on government

*Significant at 10% confidence level

relations exercise. This is evident from the company that is dependent on government. Perhaps, this is one of the strategies to impress the government in order to maintain their long-term relationship or this may one of the requirements for them to be at the top of the government project bidding list.

Government Shareholding

Table 4 summarised the independent sample t-test specifying the mean difference between two categories of government shareholding variables (high and low) and the various types of disclosure together as well as the overall quantity of reporting. Except for energy and general disclosure, there is statistically significant difference for all types of disclosure. Hence, companies with high percentage of government shareholding tend to disclose more, in particular on the environmental, employee, health and safety and community disclosure compared to the companies with low government shareholdings. The magnitude

Table 4: Output of t-Test between Government Shareholding Variable and Various Types of Disclosures and Quantity of Reporting

GS/ Types of disclosure	Mean			SE diff	t-value	Two-tailed p	Eta-squared
	Low	High	Diff				
Overall	21.518	104.50	-82.981	30.403	-2.729	0.017**	0.036
Environment	2.353	21.571	-19.218	4.215	-4.560	0.000***	0.094
Energy	0.075	0.000	0.075	0.193	0.387	0.699	0.001
Product	3.032	19.429	-16.396	7.278	-2.253	0.042**	0.025
Community	4.791	32.357	-27.566	10.801	-2.552	0.024**	0.031
Health and Safety	1.283	9.857	-8.574	3.601	-2.381	0.033**	0.027
Employee	10.000	21.286	-11.286	5.510	-2.048	0.060*	0.021
General	0.043	0.000	0.043	0.157	0.273	0.785	0.000
Form of disclosure							
Monetary	10.857	5.348	-5.509	6.337	0.869	0.400	0.004
Non-monetary	39.000	5.272	-33.727	10.880	-3.100	0.008***	0.046
Declaration	54.643	10.898	-43.744	16.655	-2.626	0.021**	0.033
Type of news							
Good	101.143	19.850	-81.292	30.114	-2.699	0.018**	0.035
Bad	0.857	0.417	-0.440	0.972	-0.452	0.651	0.001
Neutral	2.500	1.251	-1.249	2.282	-0.547	0.585	0.001

***Significant at 1% confidence level

**Significant at 5% confidence level

*Significant at 10% confidence level

of the differences in the means is also quite high. These findings are supported by Eng and Mak's (2003) study of Singaporean companies.

Unlike companies that are dependent on the government, companies with significant government shareholding also include environmental disclosure as one of the themes disclosed and such disclosure is ranked first among all the disclosures reported. Further examination of this issue reveals that some of the companies that are included in this group are big players in the plantation industry. That explains why environmental disclosure is the most popular theme disclosed. It is now becoming a common practice, if not a must, for the plantation companies to disclose their activities pertaining to the operation which dealt directly with the environmental. A survey conducted by Zakaria and Amran (2006) confirm that most of the plantation companies put high priority in disclosing their operational activities. This positive development is an outcome of criticisms on the Malaysian plantation industry particularly, the oil palm industry.

In terms of the form and type of reporting, there is not much difference compared to the earlier findings. Thus, this confirms that the CSR in Malaysia is in fact a public relations exercise and the disclosure is general and declarative in nature.

Result Based on the Extent of CSR

This study captures the diversity of dimensions disclosed by the companies that are dependent on government or companies with significant government shareholdings. Results from the independent sample t-test from Table 5 below indicate that both variables are significantly different at 0.00 percent level. This entails that companies which are dependent on the government or have significant government shareholding disclosed more by covering more dimensions or themes of CSR information. This is an acknowledgement by the companies of the effect of their existence on various themes of CSR rather than focusing only on one or two dimensions. Moreover, disclosing more social information in their annual reports will indicate the companies' seriousness in CSR reporting.

Table 5: Summary of an Independent Sample t-Test of Dependence on Government and Government Shareholding Companies in Terms of the Extent of CSR Reporting

	Mean Yes/High	Mean None/Low	Mean diff	SE diff	t-value	Two- tailed P	Eta- squared.
Government Shareholdings	6.929	3.417	-3.511	0.208	-4.455	0.000***	0.090
Dependent on government	6.680	3.233	-3.447	0.589	-5.853	0.000***	0.147

***Significant at 1% confidence level

The above finding indicates the favourite themes disclosed by those companies. Generally, the companies that are linked to the government have comprehensive disclosures covering several dimensions of CSR. However, further scrutiny highlights differences in terms of the favourite themes disclosed by these two categories of companies. Companies which are dependent on government disclose more on employee, health and safety and community whilst companies with significant government shareholding are more interested on the environmental, health and safety and product disclosure.

The above findings signify that these two types of influence face different types of pressure. In terms of the amount and extent of reporting, both variables show a significant result, thus supporting all the above hypotheses. Nevertheless, the favourite themes disclosed are different in terms of the ranking according to the amount of disclosure.

Conclusion

This study explores the role of the government in the development of CSR in the Malaysian context. It examines the relationship between the company which has significant government shareholding and the companies which are dependent on the government from the perspective of the political economy theory. Generally, the reporting practice of the companies sampled show some support for the political economic theory since both variables used in this study, government shareholding and dependence on the government, were found to be significant. The findings indicate that the government plays a significant role as companies that are dependent on the government or with significant government shareholding are institutionalized by the government's aspirations and vision regarding the social and environmental issue. The result also shows that employee and environmental themes are the information most disclosed by those companies.

This study is conducted not without several limitations that warrant attention. The first being sole reliance on the annual reports in determining the quantity and the extent of reporting. Since the consequences of business activity, other than the economic impact, are rarely made evident in the annual reports (Kuasirikun and Sherer, 2004), sole reliance on the annual report for quantifying the disclosure of CSR information could be misleading (Unerman, 2000). Thus, future studies could be undertaken to scrutinize various types of media and possibly conduct a longitudinal study on the disclosures made. Limitation also lies on the content analysis techniques applied in determining the quantity of disclosure that is subjective in nature. This study also disregarded the effect foreign shareholding might have on the companies. Undoubtedly, this is an important variable to be explored due to the fact that multinational corporations (MNCs) are affected by foreign laws and regulations and CSR disclosures could be one of the ways to please the foreign shareholders. Hence, future studies could be directed to determine the role of foreign shareholders in CSR reporting.

The pro-active action by these companies in CSR can be interpreted that the management of the company is trying to maintain good relationships with the government as they are the main shareholder of the company and are also in the position to influence the companies' future direction. For the companies that are dependent on the government, CSR disclosure will probably ensure better access to the government resources and subsequently, establish long-term relationships. By promoting themselves as a socially responsible company, a favourable image will be established and be seen as fulfilling the government's aspiration. The practice of favouritism in the Malaysian government (Jomo, 1995) will enable these companies to be the preferred ones. Thus, the government's role is, no doubt, important in creating the platform for further enhancements of CSR practices. By utilising the strength the government has, they can always create issues which address companies to take up other themes as well to be disclosed in the annual reports, for example, energy. This issue will later create awareness and a more rule-based procedure could be thought of in order to further accelerate the take-off of energy as one of the favourite themes to tell in the annual report.

As statistically proven in the earlier section, the government, through the policies and regulations, does influence the status of CSR in Malaysia. Government's involvement in CSR is reflected in Vision 2020 and in the commitment of adopting Agenda 21 which emphasizes on sustainable development. The introduction of Prime Minister's Hibiscus Award, the launching of two ethical funds or social responsibility investment fund in 2003 are a few examples of CSR activities that will influence companies and the public to undertake CSR practices. It is, therefore, hoped that the government could introduce more incentives, in terms of probably tax exemption, and encourage companies to undertake CSR activities as one of ways in realizing Vision 2020.

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APPENDIX 1

The following is a taxonomy of the types of corporate social disclosure that form the substance of the content analysis of annual reports. The list is intended to represent an exhaustive itemization of information with social importance. Adaptations to the original list used by Ng (1985) are shown in italics.

Environment

1. Environmental pollution control in the conduct of the business operations; capital, operating and research and development expenditures for pollution abatement;

Statements indicating that the company's operations are non-polluting or that they are in compliance with pollution laws and regulations; statements indicating that pollution from operations has been or will be reduced; prevention or repair of damage to the environment resulting from processing or natural resources, e.g. land reclamation or reforestation; conservation of natural resources, e.g. recycling glass, metals, oil, water and paper; using recycled materials; efficiently using materials and resources in the manufacturing process; supporting anti-litter campaigns; receiving an award relating to the company's environmental programmes or policies; preventing waste.

2. Aesthetics designing facilities harmonious with the environment; contributions in terms of cash or art/sculptures to beautify the environment; restoring historical buildings/structures.
3. Other undertaking environmental impact studies to monitor the company's impact on the environment; wildlife conservation; protection of the environment, e.g. pest control.

Energy conservation of energy in the conduct of business operations; using energy more efficiently during the manufacturing process; utilizing waste materials for energy production; disclosing energy savings resulting from product recycling; discussing the company's efforts to reduce energy consumption; disclosing increased energy efficiency of products; research aimed at improving energy efficiency of products; receiving an award for an energy conservation programme; voicing the company's concern about energy shortage; disclosing the company's energy policies. Employee health and safety reducing or eliminating pollutants, irritants, or hazards in the work environment; promoting employee safety and physical or mental health; disclosing accident statistics; complying with health and safety standards and regulations; receiving a safety award; establishing a safety department/committee/policy; conducting research to improve work safety; providing low cost health care for employees.

Employee

1. Employment of minorities or women recruiting or employing racial minorities and/or women; disclosing percentage or number of minority and/or women employees in the workforce and/or in the various managerial levels; establishing goals for minority representation in the workforce; programme for the advancement or minorities in the workplace; employment of other special interest groups, e.g. the handicapped, ex-convicts or former drug addicts; disclosures about internal advancement statistics.
2. Employee training employees through in-house programmes; giving financial assistance to employees in educational institutions or continuing education courses; establishment of trainee centres.
3. Employee assistance/benefits providing assistance or guidance to employees who are in the process of retiring or who have been made redundant; providing staff accommodation/staff home ownership schemes; providing recreational activities/facilities.
4. Employee remuneration providing amount and/or percentage figures for salaries, wages, PAYE taxes, superannuation; any policies/objectives/reasons for the company's remuneration package/schemes.
5. Employee profiles providing the number of employees in the company and/or at each branch/ subsidiary; providing the occupations/managerial levels involved; providing the disposition of staff - where the staff are stationed and the number involved; providing statistics on the number of staff, the length of service in the company and their age groups; providing per employee statistics, e.g. assets per employee and sales per employee; providing information on the qualifications of employees recruited.
6. Employee share purchase schemes providing information on the existence of or amount and value of shares offered to employees under a share purchase scheme or pension programme; providing any other profit sharing schemes.
7. Employee morale providing information on the company/management's relationships with the employees in an effort to improve job satisfaction and employee motivation; providing information on the stability of the workers' jobs and the company's future; providing information on the availability of a separate employee report; providing information about any awards for effective communication with employees; providing information about communication with employees on management styles and management programmes which may directly affect the employees.
8. Industrial relations reporting on the company's relationship with trade unions and/or workers; reporting on any strikes, industrial actions/activities and the resultant losses in terms of time and productivity; providing information on how industrial action was reduced/negotiated.

9. Other improvements to the general working conditions - both in the factories and for the office staff; information on the re-organization of the company/discussions/branches which affect the staff in any way; the closing down of any part of the organization, the resultant redundancies created, and any relocation/retraining efforts made by the company to retain staff; information and statistics on employee turnover; information about support for day-care, maternity and paternity leave.

Products

1. Product development information on developments related to the company's products, including its packaging, e.g. making containers reusable; the amount/percentage figures of research and development expenditure and/or its benefits; information on any research projects set up by the company to improve its product in any way.
2. Product safety disclosing that products meet applicable safety standards; making products safer for consumers; conducting safety research on the company's products; disclosing improved or more sanitary procedures in the processing and preparation of products; information on the safety of the firm's product.
3. Product quality information on the quality of the firm's products as reflected in prizes/awards received; verifiable information that the quality of the firm's product has increased (e.g. ISO 9000).
Community involvement donations of cash, products or employee services to support established community activities, events, organizations, education and the arts; summer or part-time employment of students; sponsoring public health projects; aiding medical research; sponsoring educational conferences, seminars or art exhibits; funding scholarship programmes or activities; other special community related activities, e.g. opening the company's facilities to the public; supporting national pride/government sponsored campaigns; supporting the development or local industries or community programmes and activities.

Others

1. Corporate objectives/policies: general disclosure of corporate objectives/policies relating to the social responsibility of the company to the various segments of society.
2. Other: disclosing/reporting to groups in society other than shareholders and employees, e.g. consumers; any other information that relates to the social responsibility of the company.

Decision rules for social disclosures

Discussion of directors' activities are not to be included as a discussion on employees.

All sponsorship activity is to be included no matter how much it is advertising.

All disclosures must be specifically stated, they cannot be implied.

Good/neutral/bad classifications to be determined from perspective of the stakeholder group involved.

If any sentence has more than one possible classification, the sentence should be classified as to the activity most emphasized in the sentence.

Tables (monetary and non-monetary) which provide information which is on the checklist should be interpreted as one line equals one sentence and classified accordingly.

Innovations in products or services should not be included unless they are beyond what is necessary to compete in the marketplace or attract business.

Any discussion of the pension funds or employee share schemes would be classified as good news unless it was clearly to the contrary, e.g. that the scheme had been scrapped.

Any disclosure which is repeated shall be recorded as a CSD sentence each time it is discussed.

Discussions relating to the quality of goods and services will not be a CSD unless it contains notice of a verifiable change in quality, e.g. accreditation to the International Standards Organisation ISO 9000 quality series standard.