



FACTORS DETERMINING CSR DISCLOSURES:  
ANALYSIS OF SHARIAH AND NON-SHARIAH  
APPROVED COMPANIES

BY

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## **ABSTRACT**

In the year 2006, Bursa Malaysia (formerly known as KLSE) launched its CSR framework (effective in 2007) which is supposed to guide the Malaysian PLCs' CSR disclosure practices. It is believed that this CSR framework may influence CSR disclosure practices to be more systematic, yet there is no evidence whether this framework influences the extent and quality of CSR disclosure practices. Thus, this study examines this area of research using BMB's CSR framework as a benchmark. This study analysed the extent and quality of CSR information disclosure in the annual reports of the Shariah-approved companies and their counterparts listed at BMB. The empirical results show that Malaysian PLCs disclose more CSR information related to community involvement and environment related information than workplace and marketplace CSR themes. On the other hand, the quality of disclosure practices was minimal when it is compared to the extent of disclosure practices. For the comparison between SE and NSE companies, the study reveals that there is no statistically significant difference between these two groups with regard to the CSR disclosure practices. Finally, for the factors influencing CSR disclosure, the study documented that the variable award has a significant positive association with both the extent and quality of CSR disclosure practices of the Malaysian PLCs. However, traditional factors (e.g., firm size, profitability and industry) show insignificant relationship with the CSR disclosure practices. This study contributes to the literature where it examined both the traditional and non-traditional factors influencing management's decision to disclose CSR information in the annual reports of the Malaysian PLCs.

## ملخص البحث

في العام 2006، أطلقت بورصة ماليزيا (المعروف سابقا باسم KLSE) إطاره المتعلق بـ "المسؤولية الاجتماعية" للشركات، اعتبارا من عام 2007، التي من المفترض أن تصبح دليل ممارسات افصاح "المسؤولية الاجتماعية" للشركات الماليزية المعروفة بـ PLCs. ويعتقد أن إطار "المسؤولية الاجتماعية" للشركات قد يؤثر ممارسات افصاح "المسؤولية الاجتماعية" للشركات إلى أن تكون أكثر انتظاما، ولكن لا يوجد دليل على ما إذا كان هذا الإطار يؤثر على مستوى ونوعية الافصاح بـ "المسؤولية الاجتماعية" للشركات. وبالتالي، فإن هذه الدراسة تهدف إلى دراسة مدى ممارسة شركات BMB في إطار افصاح "المسؤولية الاجتماعية" للشركات كمعيار. حلت هذه الدراسة مدى ونوعية "المسؤولية الاجتماعية" للشركات وافصاحها عن المعلومات في التقارير السنوية للشركات مع مراعات متطلبات الشريعة الإسلامية ونظرائهم المسرودة في BMB. طبقا للنتائج التجريبية تبين أن الشركات الماليزية في PLCs تفصح المزيد من المعلومات ذات الصلة بـ "المسؤولية الاجتماعية" للشركات، وكذلك المعلومات ذات الصلة بالبيئة في مكان وسوق العمل. من ناحية أخرى، كان مستوى ممارسات الافصاح عن نوعية البيانات في حدها الأدنى عند مقارنتها إلى ممارسات الإفصاح. للمقارنة بين مجموعتي SE وNSE، توصلت الدراسة أنه لا يوجد فرق كبير من الناحية الإحصائية بين المجموعتين فيما يتعلق بممارسات الافصاح عن "المسؤولية الاجتماعية" للشركات. وأخيرا، من أجل الكشف عن العوامل المؤثرة في افصاح "المسؤولية الاجتماعية" للشركات، توصلت الدراسة أنه يوجد علاقة وثيقة إيجابية بين حجم ونوعية ممارسات الافصاح عن "المسؤولية الاجتماعية" لشركات PLCs الماليزية. ومع ذلك، أن العوامل التقليدية (مثل حجم الشركة والربحية والصناعة) تظهر العلاقة ضئيلة مع ممارسات افصاح "المسؤولية الاجتماعية" للشركات. تساهم هذه الدراسة أكاديميا بدراسة كل من العوامل التقليدية وغير التقليدية التي تؤثر في قرار الإدارة على افصاح "المسؤولية الاجتماعية" للشركات وعن المعلومات الأخرى ذات الأهمية للمجتمع في التقارير السنوية.

## APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Sciences (Accounting).

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## DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Abdirahman Mohamed Anas

Signature .....

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# **CHAPTER ONE**

## **INTRODUCTION**

### **1.0 INTRODUCTION**

This chapter presents an overview of the study. The chapter contains five sections as follows: the first section provides a brief background and motivation of the study. The second section presents the problem statement of the study. The following third and fourth sections discuss the research objectives and questions, and contribution of the study, respectively. Finally, this chapter outlines the structure of the thesis.

### **1.1 BACKGROUND AND MOTIVATION**

In Malaysia, CSR disclosure practice is guided by Bursa Malaysia's (BMB) CSR framework that was effective in the year 2007. Therefore, it is plausible to provide a brief discussion about this CSR framework. The researcher expects that, due to this framework, Malaysian PLCs' CSR disclosure practices might be more systematic. To date, there has been no evidence in the literature about how Malaysian PLCs comply with the BMB's CSR framework. In light of this, this brief discussion provides some understanding about the framework.

#### **1.1.1 Bursa Malaysia Corporate Social Responsibility Framework**

Effective in the fiscal year 2007 (onwards), Malaysian public-listed companies (PLCs) are required to disclose their CSR initiatives and activities in the annual reports (Bursa Malaysia Berhad (BMB), 2006). The BMB's CSR framework is deemed to guide the

PLCs towards how to disclose their CSR practices. In this context, the expectation could be that, to some extent, the CSR disclosure practices would be affected due to the increasing number of companies disclosing and in a more systematic nature. Prior studies (e.g., Teoh and Thong, 1984; Andrew, Gul, Guthrie and Teoh, 1989) found that CSR disclosure was poor in quality and low in quantity because of lack of enforcement and framework that might guide the PLCs to systematically disclose their CSR activities.

The framework contains four main CSR themes, which are consistent with the CSR literature namely, the environment, community, marketplace, and the workplace (Guthrie and Parker, 1989; Gray, Kouhy and Lavers, 1995a, 1995b). More importantly, the framework concerns that the PLCs should consider these four themes.

In the first theme, which is environment, BMB highlighted and provided list of issues of its interest such as:

- efficiently using energy, and
- how to reduce its emissions that damages the climate
- the issue of bio-fuels, and
- the essential needs to protect the flora and fauna.

The second CSR theme in the framework discusses the involvement of community related activities. Generally, in this theme, BMB suggested these areas as starting points, which are as follows:

- supporting employee involvement in community issues which enriches both the community and the company
- supporting education such as adapting a school
- contributions to children, youth development and under-privileged

The third theme concerns the marketplace practices related to CSR activities. With regard to guiding the PLCs, BMB raised the following issues in this theme, which includes:

- supporting green products
- engaging in only ethical procurement practices
- helping to develop suppliers and other vendors
- raising the standards of corporate governance within the company-to meet shareholder expectations

Finally, the last theme refers to the workplace. In this theme, items listed are as follows:

- human rights issues related to employment practices
- gender issues (equal employment opportunities)
- quality work environment
- health and safety

Despite the existence of the CSR framework of Bursa Malaysia, which is argued to guide systematic disclosures of CSR information of Malaysian public-listed companies, its influences and effects are yet to be examined. Furthermore, the framework might be considered as vague and its guidelines are general and broad. As a result, most of disclosure requirements are qualitative in nature. Therefore, it might be subject to the interpretations and judgments of managers. These subjective issues and related ambiguities will affect the extent and quality of CSR disclosure by Malaysian companies. Consequently, if companies have the freedom to play the game, then one might expect there would be partial, ad-hoc, and imminent disclosure practices (Gray, Dey, Owen, Evans and Zadek, 1997).

Consistent with this argument, BMB mentions that its framework is just a starting point, and does not present the whole issues related to the CSR disclosure practices. Instead, BMB suggests that PLCs have the freedom to adapt what suits their CSR-related practices and disclosures. Thus, this study examines the extent and quality of CSR disclosure practices using BMB's CSR framework as a benchmark. The researcher expects that this framework may have influence on, but not exclusively, the extent and quality of disclosure practices of CSR.

### **1.1.2 CSR Disclosure Practices**

In general, from 1990s CSR issues have received significant attention from both academics and practitioners (Gray et al., 1997; Mathews, 1997; Roberts, 1992). Thereafter, corporate managers' attitudes towards CSR activities and disclosure practices have continued to change. As a result, CSR is seen as a dialogue between the organisation and its society at large (Gray et al., 1995a). CSR is defined as:

...the process of communicating the social and environmental effects of organisations' economic actions to particular interest groups within society at large. As such, it involves extending the accountability of organization, beyond the traditional role of providing a financial account to the owners of capital, in particular, shareholders... (Gray, Owen and Maunders, 1987: ix).

Specifically, this thesis addresses three main issues related to the Malaysian PLCs' CSR disclosure practices. Among the issues are (1) whether there is a change<sup>1</sup> in CSR disclosure practices among Malaysian companies due to stronger emphases given by the relevant authorities on the CSR issues (e.g., the BMB's CSR framework

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<sup>1</sup> Change in terms of the priorities in CSR themes e.g., environment, community, workplace and marketplace.



and governmental level of CSR awards for companies); (2) to examine factors determining the extent and quality of CSR disclosure other than traditional firm-specific variables such as award; and, (3) concept of Islamic accountability suggests that Shariah-approved companies should involve more in socially responsible best practices than their counterparts (Lewis, 2001). Consequently, one might expect that Shariah-approved companies tend to disclose more CSR related information to comply with their social contract than non-Shariah approved counterparts. Thus, a brief discussion on these research areas is provided in the following paragraphs.

On the first issue, in Malaysia two and a half decades ago, studies (e.g., Teoh and Thong, 1984) found that the level of CSR disclosure practices was very low when it was compared to other developed countries. Teoh and Thong (1984) found that the majority of the listed companies mostly disclosed only CSR information related to employees and product. This finding is consistent with studies conducted in developed countries (Gray et al., 1995a; Guthrie and Parker, 1989) but the notable difference was that these studies documented that most of the disclosed CSR-related activities were employees and community disclosure. Furthermore, recent studies (Nik Ahmad, Sulaiman and Siswantoro, 2003) also provided support for these findings with similar results regarding the most CSR disclosed information in annual reports of Malaysian companies.

In contrast, current studies (Adams, 2002; Hooghiemstra, 2000) suggest that there is evidence that companies keep moving towards more involvement regarding environment and community disclosure practices. This new trend (i.e., involving in environment and community) might also be inferred from longitudinal studies (e.g., Gray et al., 1995a; Guthrie and Parker, 1989) which suggested to some extent that companies' focus on CSR disclosure practices change with the changing demand of

stakeholders. Thus, as prior studies have demonstrated a change in CSR disclosure practices such as changes in the priorities of CSR themes, this study would also address similar issues within the Malaysian context.

Secondly, some studies have found variables other than traditional firm-specific variables are significant in explaining CSR disclosure practices. Boesso and Kumar (2007) found that the extent of disclosure practices might be related to the companies' activities related to stakeholder engagement strategy (award variable was used as proxy of stakeholder engagement). They attempted to relate the stakeholder engagement to both the extent and quality of disclosures. However, they failed to associate the quality disclosure practices with the stakeholder engagement.

In addition, CSR issues have also received significant concerns from the political figures (Deegan, 2002). The case in Malaysia for instance, in the year 2007, the Prime Minister launched the CSR awards to recognise all Malaysian companies which have significant contribution and involvement in social responsibility activities and practices (Amran and Devi, 2008). Thus, this initiative towards motivating companies, which significantly involve with CSR activities, might have an influence to the extent and quality of CSR disclosures. Accordingly, this current study considers the award variable as one of the plausible factors, which might influence CSR disclosure practices of the Malaysian PLCs.

Finally, for the concept of Islamic accountability, the literature suggests that Islamic accountability is broader than the conventional accountability concept (Lewis, 2001). Baydoun and Willet (2000: 81) argued that "private accountability and limited disclosure are insufficient criteria to reflect the ethical percepts of Islamic law". In this context, Shariah-approved companies are recognised as they stand for both social and economic objectives (Maali, Casson and Napier, 2006). Depending on this concept,

the researcher expects that Shariah-approved companies listed in BMB would disclose CSR related activities more than that their counterparts, because they are expected to comply with the concept of Islamic accountability regarding full disclosures (Baydoun and Willet, 2000; Lewis, 2001).

For the classification of Shariah-approved companies and non-Shariah approved counterparts, this study adopts the classification of the BMB. The Malaysian-listed companies in BMB are classified whether Shariah-approved securities (referred to as SE hereafter) or non-Shariah approved securities (referred to as NSE hereafter) (for more detail see chapter four).

## **1.2 STATEMENT OF THE PROBLEM**

In 2006, BMB launched its CSR framework (effective in 2007) which is supposed to guide Malaysian PLCs' CSR disclosure practices to be more systematic, yet there is no evidence whether this framework might influence the level of quality of CSR disclosure practices. In addition, to the best knowledge of the researcher, there is no evidence that prior studies have attempted to examine the extent and quality that Malaysian PLCs comply with the BMB's CSR framework. Thus, this study examines both the extent and quality of CSR disclosure practices of the Malaysian-listed companies in annual reports using BMB's CSR framework as a benchmark.

## **1.3 PURPOSE OF THE STUDY**

This study analyses annual reports for the year ending 2008 of the SE and NSE-listed companies in BMB using disclosure checklist/index (items in BMB's CSR framework), which can capture both the extent and quality of CSR disclosure

practices (using a score of three points as suggested by Wiseman (1982)). For this, three objectives were developed, as follows:

1. To examine the extent and quality of CSR disclosure practices in annual reports of the Malaysian PLCs (using BMB's CSR framework as a benchmark).
2. To investigate whether there is a difference in terms of the extent and quality of CSR disclosure between Shariah-approved and non-Shariah approved companies.
3. To determine the factors influencing CSR disclosure practices of Malaysian PLCs (traditional and other non-traditional factors).

Based on these research objectives, this study provides answers to the following research questions:

1. To what extent and quality have Malaysian PLCs disclosed CSR information in annual reports?
2. Is there a difference in terms of the extent and quality of CSR disclosure between Shariah-approved and non-Shariah approved companies?
3. What are the factors that might have association with the extent and quality of CSR disclosure practices of the Malaysian PLCs?

#### **1.4 CONTRIBUTION OF THE STUDY**

The researcher expects to contribute to the literature in examining the extent and quality of CSR disclosure practices of the Malaysian PLCs using BMB's CSR framework as a benchmark. The study also attempts to determine factors (traditional and non-traditional) influencing CSR disclosure practices of Malaysian PLCs in

annual reports. To the best knowledge of the researcher, there is little evidence of this in the literature.

## 1.5 ORGANISATION OF CHAPTERS

The structure of this thesis is organised into six chapters, which are: **Chapter one: Introduction:** this chapter presents a brief background of the study. **Chapter two: Literature review:** this chapter reviews the prior studies both in developed and developing countries related to CSR disclosure practices.

**Chapter three: Theoretical framework and Hypotheses development:** in this chapter, the study will focus on the variables related to CSR disclosure and how these variables can be explained by the selected theory(s). **Chapter four: Research methods:** in this chapter, the following issues are highlighted: sample size and selection procedure, data analysis, data source and disclosure index and finally the operationalisation of the research variables.

**Chapter five: Research findings:** in this chapter, the analysis of the results based on the research questions/hypotheses is provided. **Finally, Chapter six:** presents further discussion of the findings, research implications, followed by the conclusion, limitations and suggestions for future research.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 INTRODUCTION**

This chapter reviews the literature about CSR disclosure practices. The chapter is organised into three broad sections: the first section contains three sub-sections. These sub-sections discuss CSR disclosure practices of developed and developing countries, including Malaysia. The second section organises the chapter around the main themes of the study, based on the research objectives, which are the extent and quality of CSR disclosure practices, factors influencing CSR disclosure and the concept of Islamic accountability. The last section concludes the chapter.

#### **2.1 CORPORATE SOCIAL RESPONSIBILITY**

CSR is defined as a process of communicating the company's activities and initiatives toward interested groups among the society at large (Gray et al., 1987). CSR is seen as a dialogue between the organisation and its stakeholders (Gray et al., 1995a). These definitions may be considered as the most widely accepted definitions for CSR in the literature, although they may be affected by the country's social, cultural, and economic background. Alternatively, BMB (2006) defines CSR as open and transparent practices that are based on ethical values and respect for the community, employees, environment, shareholders, and other stakeholders. The BMB's definition (for CSR) sounds more specific and detail than other definitions provided by Gray et al. (1987) and Gray et al. (1995a). However, all of the three definitions consider CSR as communication between the organisation and its stakeholders.

Besides the definitions, prior studies have examined diverse areas related to CSR disclosure practices. Among the investigated areas include a longitudinal studies of CSR practices such Gray et al. (1995a, 1995b), Mathews (1997), Guthrie and Parker (1989) and Deegan, Rankin and Tobin (2002). In addition, some studies examined the methodological issues related to CSR studies (Unerman, 2000), critical examination between social performance and economic performance (Ullmann, 1985), management's motives for social and environmental disclosure (Deegan, 2002) and determinants of CSR disclosure (Roberts, 1992). However, the CSR areas listed here is not conclusive.

Albeit prior studies on CSR is dominated by the developed countries, but there are some studies (in developing countries), which examine different areas related to CSR. Among the areas are include: the impact of culture and governance on CSR (Haniffa and Cooke, 2005), how CSR works in an Islamic and socialist environment (Pratten and Mashat, 2009), the impact of internal environmental policy on corporate social and environmental reporting practice (Mitchell and Hill, 2009) and the perception of important information in CSR disclosures (Gunawan, 2010). The following sections provide discussions of prior literature on CSR based on the following categories: CSR in developed countries, developing countries and CSR in Malaysia.

### **2.1.1 CSR in Developed Countries**

Historically, social and environmental reporting practices have made some developments from the last three decades. Mathews (1997) reviewed 25-year of social and environmental accruing in the literature. He divided the 25-year period into three

stages. In the first period, (i.e., 1971-1980), he highlighted that the significant contributions from academics were directed to social more than environmental issues. Furthermore, he documented that empirical studies were descriptive in nature. The second period (i.e., 1980-1990), Mathews (1997) provided evidence that empirical studies concerning environmental issues increased in their numbers and the studies were more complete than descriptive studies. Finally, in the last period (i.e., 1990-1995), he concluded that this period was the continuation of the succession period (i.e., 1980-1990).

Guthrie and Parker (1989) conducted an empirical study on the earliest known CSR practices. This study covers one century (starting from 1885-1985) of an Australian steel company's (i.e., BHP) CSR reporting practices. The study analysed 177 of both annual reports and half-yearly reports using content analysis. The focus of the study was on determining whether a similar history of CSR is apparent in the Australian steel industry as compared to the U.S. steel industry. Guthrie and Parker (1989) found that there was a pattern of increasing social reporting. As a result, BHP disclosed more human resources and community involvement information than CSR themes related to the environment and customer. However, Guthrie and Parker (1989) failed to justify their findings using the theoretical framework that they developed in their study (i.e., legitimacy theory). The failure arose when they tried to explain the peaks of CSR disclosure practices as evidenced in the study.

Similarly, Deegan et al. (2002) extended the works of Guthrie and Parker (1989) studying only a 15-year (starting from 1983 until 1997) examination of same company (i.e., Australian steel company–BHP). One of the differences that this study made was that the study developed new variables, which can capture the media pressure that companies used to face. Deegan et al. (2002) documented that BHP