

# **Time to Wake Up!**

## **Sustainable Responsible Business Reporting In Malaysian Companies**

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### **Abstract**

One of the ways we have a peek into the ethics and values of a corporation is through Sustainable Responsible Business (SRB) reporting. SRB reporting is akin to reporting financials, but rather than focusing on the numbers (i.e. profits), there is an emphasis on the people and planet impacts. At the moment, such reporting is voluntary. Some corporations do it, some corporations do not. A question was asked, "Should Sustainable Responsible Business reporting be made mandatory by the government?" The logic behind having reporting mandatory is 1) that corporations will do it, and 2) By being made to do it, their behaviors will change for the better.

The sustainable responsible business (SBR) is not a new practice in all over the world. Employers, employees and society as a whole have begun to realize the importance of this practice for the benefit of the society. This paper is aimed to investigate the disclosure of sustainable responsible business (SBR) of public listed companies in Malaysia for the period of 3 year (from 2009-2011). The results indicated that disclosure levels are quite low throughout the 3 years period and the companies' disclosure decrease each year. Companies in Malaysia disclose more qualitative information and larger companies tend to disclose more corporate information in the annual report.

**Keywords:** Sustainable Responsible Business Reporting, Asset Value, Corporate Disclosure, Qualitative information

## **I. Introduction**

Consensus on a single definition of sustainable responsible business (SRB) continues to elude scholars. Carroll (1999) provides an overview of the evolution of the corporate social responsibility concept from initially focusing on individual manager responsibility for social consequences of actions in the 1950s to the firm's responsibility to multiple stakeholders in the 2000s. Subsequent reviews in the literature focus on trends in the management and business ethics fields, including the challenges of corporate social responsibility in the global context (Waddock, 2004; Siegel et al, 2006).

Over the last few decades, there has been increasing amount of voluntary social disclosure by various types of companies worldwide. It shows that companies have increased their cognizance of their responsibility towards employees, customers, environmental and society at large. Sustainable responsible business reporting has become an important financial reporting issue. Many people in the society have become increasingly more aware of this issue and it is now placed as a vital aspect in society. Sustainable responsible business reporting is not a new concept in the accounting field. It has caught much attention from accounting professions since a few decades ago (Belkaoui and Karpik, 2008; and Hackston and Milne, 2006). Cohen et al (2011) found that retail investors were most concerned with non-financial disclosures that had bearing with the future earnings of the companies that they invested in or were interested to invest in, in particular the disclosures of leading economic indicators (including Sustainable responsible business reporting).

The study examines the voluntary disclosure practice of sustainable responsible business reporting of Public Listed Companies (PLC) in Malaysia. This study is aimed primarily at analyzing the content and types of sustainable responsible business disclosure information provided in the annual reports. This study also investigates the relationship between the voluntary disclosure of sustainable responsible business reporting information and the size of the companies.

## **II. Background of the Study**

The practice of sustainable responsible business reporting was widely recommended in the 1970s but lost its prominence in the 1980s. The end of the 1970s until the mid-1980s was characterized by recession and decreasing interest in sustainable indicators researches with the number of publications went down and many research projects ended unsolved. In addition international organizations, especially the OECD, drastically reduced their commitment in this area. In United States, many terminated research was due to decrease amount of financial support in this area. The economic crisis beset the Western industrial societies at the beginning of the 1980s; the change in political climate and social policy programs, which was connected in several countries with the transition from liberal to conservative governments. (Deegan, 2008).

To address the sustainable business responsibilities of global companies, a theory and process of global business citizenship emerged from social responsibility literature (Wood and Logsdon, 2005). They reiterate that global corporate citizenship requires:

- 1) A set of value embedded in the corporate code of conduct and in corporate policies that reflect ethical standards;
- 2) Implementation of awareness
- 3) Analysis and the practical ways to deal with problem cases and
- 4) Systematic learning processes to communicate the result internally and externally.

In Malaysia, the issue of sustainable responsible business reporting is still very new, where statutory disclosure of sustainable responsible business reporting is not required for Public Listed Companies (PLC) in Malaysia. However, Bursa Malaysia has made it compulsory for all listed companies to disclose their SRB activities, although guidance on the content of the reporting continues to be an issue. Arising from this requirement, the public has become more aware of this issue and a lot of pressure has come from various stakeholders, in particular from employees, non-

governmental and consumer organizations. The issue of legislation on pollution controls, industrial safety, employees' welfare and employees' training has been given attention and discussed frequently. Realising this, a number of companies in Malaysia has started disclosing these reports in their annual reports voluntarily in the section of Chairman's Statement, Notes to Accounts and some even provide greater extent of disclosure in a separate section in the Financial Statements. Regulators such as Malaysian Institute of Accountants (MIA) and Malaysian Institute of Certified Public Accountants (MICPA), Bursa Malaysia and the Malaysian Institute of Management (MIM) have organized a few awards ; for example, Malaysian Annual Corporate Reports Awards (MACRA) to show their greater concern in this area (Kin, 1980). This has since been changed to the National Annual Corporate Report Awards (NACRA), and is organized by Bursa Malaysia, MIA and MICPA.

### III. The Review of Literature

Extensive literatures have been found in the area of SBR. Mostly the literatures try to place some form of theoretical context and attempted to give the reasons on why the companies should choose to engage in the practice of SBR. Result from the past literatures agrees that the practice of SBR should be undertaken because it provides useful information and for investment decision making or can assist in staving off potential regulatory pressure to be more socially responsible (Gray et al.,1995a; Watts and Zimmerman,1978). The practice can also be seen as tools by which companies may attempt to manage stakeholders in order to gain their supports or approval (Roberts, 1992). During 1970s, the environmental accounting and the social literature was still insufficient, there was also less regulation of financial accounting in the period of 1970s compared to recently. Environmental aspects were being neglected at that time by majority of the people in the society.

Several studies have been carried out in the western countries during 1970. One of the earlier studies was carried out by Arthur Anderson & co. in 1974 on the 1000 largest industrial products and 50 largest commercial banks, life insurance companies, diversified financial companies, transportation and utilities to examine the disclosure of SBR. Results indicated that environmental protection was the greatest concern area of disclosures by companies and most of the companies stated companies' involvement in the social programs. Another early study in 1970s was conducted by Bowman and Hair (1975) that examined the relationship between SBR disclosures and level of the profitability of the firm. Result found that the highest return on equity was associated with medium level of responsibility disclosures. Ernst & Ernst also produced a series of analyses of the annual report of Fortune 500 companies between 1972 -1978. The reports were produced every year during the period. Towards the end of the period, disclosure rates for socially oriented information occurred about 90% of the annual report; the average volume was about half a page. Studies on SBR have also been conducted by Gray *et.al*, (1996); Hackston and Milne (1996); Roberts (1991); Tsang (1998).

Increasingly, many stakeholders and academicians have criticized in greater voice that the backward looking (historical focus) aspect of financial reporting provides an incomplete picture of a firm's position to stakeholders, in particular the auditors, shareholders and creditors. This in turn has resulted in stakeholders having limited relevant information to evaluate the future prospects of companies (Lev and Zarowin, 1999; Lev, 2001; Graham et al, 2005).

Further, SBR activities in themselves provide focus on product developments and marketing practices by companies. Past research by Brown and Dacin (1997) and Sen and Bhattacharya (2001) demonstrated that SBR activities produce value for companies in terms of brand loyalty and marketing advantages. This should point towards greater incentive for companies to report on the SBR practices and activities.

Studies have also attempted to distinguish factors that appear to be associated with social and environmental disclosures. Studies by Trotman and Bradley (1981), Kelly (1981), Hackston and Milne (2006) and Belkaoui and Karpik (2008) found statistically significant positive relationships between company size (total assets and total sales) and social responsibility. These findings are also in line

with those by Gray *et.al* (1995a); Deegan and Rankin (1996), Milne and Adler (1999), Campbell (2000), Holder-Webb *et.al.* (2008, 2009) who all suggest some form of firm size effects with respect to the information environment of the firm, including those relating to SBR disclosure. Result also indicated a positive correlation between volume of sustainable responsible business information disclosed and the extent of sustainable constraints faced by companies. Since the accumulation and dissemination of information is costly, smaller companies are less likely to bear the cost of comprehensive disclosure in their annual reports. Moreover, smaller companies may be reluctant to disclose more information than the statutory minimum because it would place them at a competitive disadvantage. Another reason put forward for greater public disclosure by larger firms is that they are more likely to attract the attention of financial analysts and the media. Some sustainable responsible business disclosure studies showed contradict result. For example, Davey (1982) and Ng (1985) failed to support hypothesized associations between company size and SBR practices. Similarly, Roberts (1992) found no relationship among US companies.

A few studies have been conducted in the developing countries like Singapore and Malaysia. In Singapore, Low, Koh and Yeoh (1985) conducted an investigation on 1983 annual reports of 80 listed companies in Singapore Stock Exchange. Result indicated that 48% of randomly selected companies disclosed some form of social information, the conclusion derived is that SBR disclosure was still at its infancy stage. Foo and Tan (1988) conducted the study of SBR practices in Malaysia and Singapore. They found that 43% of the Singapore companies disclosed some form of SBR disclosure compared to 31% of Malaysian companies. Result also indicated that larger companies have the higher incidence of sustainable responsible business reporting disclosure compared to smaller companies. In Malaysia, Teoh and Thong (1984), found that the level of sustainable responsible business reporting disclosure was much lower than the level of business social involvement in the earlier study. It was also found that Malaysian companies frequently disclose the information the Chairman's Statement. Yap (1985) carried out a study on various aspects of sustainable responsible business performances, including social reporting in Malaysia. Ho (1992) conducted similar and found that 66% of the companies discloses some form of information on their social responsibility involvement.

Managers need to understand how the SBR affects firm performance. Subsequent instrumental stakeholder theory provides a theoretical basis for predicting the nature of the relationship between the firm's stakeholder orientation and its financial performance (Barnett and Salomon, 2006). A number of studies show that firms perceived as socially responsible have higher financial performance (Schmidt and Rynes, 2003; Margolis and Walsh, 2003). However the positive relationship with financial performance does not hold across all stakeholders or corporate response activities. Seifert *et al.* (2004) show that community philanthropy is not related to financial performance. Berman *et al.* (2004) find that relationships with many stakeholders other than employees and customers have only indirect effects on firm financial performance.

#### **IV. Research Methodology**

##### **Sample Selection**

The sample was chosen from Public Listed Companies in Malaysia from year 2009 to 2011. An initial sample of 127 companies was selected from BURSA MALAYSIA index. Four specific industries were chosen namely because we expected that most disclosure will be derived from these industries. Those specific industries involved are trading/services, consumer product, property and finance. 32 companies were selected under each industry except 31 for finance industry. The data collected focused on the types of disclosure (qualitative, quantitative and declarative), the number of

sentences disclosed, and the location where the disclosures appear. The information on total assets and total paid up capital were obtained from the BURSA MALAYSIA website.

### **Measurement of variables**

The dependent variables here will be derived from information in Sustainable Responsible Business disclosure. The study used content analysis. This method was widely used by other study in this area [see Ernst and Ernst (1978); Bowman and Haire (1976); Trotman and Bradley (1981); W.K.Tsang,1998; Milne and Adler (1999); Campbell (2000); Holder-Webb et al (2008, 2009)]. The amount of disclosure *per company* and *per content category* is measured by the number of sentences. In many earlier studies, quantification for each of the disclosure categories consisted of recording whether or not a company made a disclosure in the category, and total amount per company was measured to the nearest tenth or quarter of a page, (Hackston and Milne,1996, p84). This study used sentences, as a measurement unit. As Gray et al. (1995b) stated, “the extent of disclosure [is an] indication of the importance of an issue to the reporting entity’.

Given the concern over page measurement versus sentences, this study seeks to construct an approximation to page measurement from the sentence-coded data. First, the average number of sentences per page of the Chairman Statement for each annual report was calculated. The average for each report was then divided into the total number of sustainable responsible business disclosure sentences for that report to produce a derived page measurement for each company. Later, it was decided to go back and measure the absolute amount of sustainable responsible business per company (per content category). In all three measures of sustainable responsible business disclosure amount, no attempt is made to standardize for annual report length. There is no restriction on the number of pages that an annual report can include and, if companies consider additional disclosure is sufficiently important, it is believed they will include extra pages in the report. The use of all three measures of sustainable responsible business disclosure amount enables comparisons with other studies and permits comparative analysis to assess the importance of the choice of measure. (Hackston and Milne,1996, p84), Gray et al. (1995a, 1995b), Holder-Webb et al (2008, 2009). Guthrie and Parker (1990) and Gray *et al.* (1995a) draws an important distinction between voluntary disclosures and those disclosures mandated by legislation.

## **V. Analysis, Results and Discussion**

Before further test was carried out, a reliability test was performed. Alphas are greater than 0.6 suggesting acceptable internal consistency reliability of the measures used in this study (Sekaran, 1992).

### **Insert Table 1**

Furthermore the result of a descriptive analysis of the SBR disclosure according to types of disclosures are presented in Table 2

### **Insert Table 2**

The SBR disclosure can be segregated into form type, qualitative, quantitative, declarative and none. Among those, qualitative is the most popular disclosure format practiced by the companies. (Refer to Table 2). The result also indicated that all types of disclosure (exclude none) have declined along this three-year period.

### **Insert Table 3**

Normally companies choose to report the SBR disclosure in various locations of annual report. Table 3 shows that most of the companies preferred devoting space sustainable responsible business information disclosure in the Chairman Statement. 102 of 127 companies were found to make their disclosures in the Chairman Statement section during the period of 2009-2011. In 2009, 30.71%

companies disclose the SBR information in Chairman Statement, 25.98% in 2010 and 23.62% in 2011. Other popular locations of disclosure were review of operation (16.54% in 2009; 18.90% in 2010; 14.17% in 2011) and diary of events (19.69% in 2009; 18.90% in 2010; 18.90% in 2011). During these periods, 43 companies being reported social information in other sections such as Statement to Shareholders, Environmental Policy Statement. From 2009-2011, only 17 companies were found to quantify the sustainable responsible business costs in monetary terms, which included in the financial statements.

#### **Insert Table 4**

This study also investigated the level of disclosure of SBR for a total of 127 companies in the selected five industries that includes consumer products, finance, industrial products, properties, and trading and services from year 2009 to 2011. Table 4 shows that the number of the companies (in the selected five industries) which do not disclose any sustainable responsible business information in annual reports has increased continuously since 2009. In 2009, 49 companies disclose SBR information, 41 companies in 2010 and 38 companies in 2011.

#### **Factors Influencing Sustainable Responsible Business Disclosures**

The discussion in this section reflects the factors that influence the companies to disclose CSR information. It is also plausible that companies' characteristics such as size and types of industry may have some influences on the disclosure practice of the companies. Evidence from the previous literature suggests that there is an association between company size and SBR disclosure. (see Trotman and Bradley (1981), Belkaoui and Karpik (1989); Kelly (1991); Hakston and Milne, 1996, Gray *et.al* (1995a); Deegan and Rankin (1996), Milne and Adler (1999), Campbell (2000), Holder-Webb *et.al*. (2008, 2009)), thus the hypotheses is formulated as follows. The statistical method used is non-parametric. For hypotheses testing, Spearman Rank Correlation was used to test the relationship between level of SBR disclosure and total assets value.

**Hypothesis 1:** There is no relationship between total assets value with the level of disclosure.

#### **Insert Table 5**

The correlation test was conducted to test whether the relationship exists between the total assets value with the level of disclosure. Number of sentence was being regarded as the dependent variable to represents the level of SBR disclosure. The total companies being tested are 127 companies with 3 years data. The result obtained from the Spearman's rho shows that the correlation coefficient is positive at 0.312. It also means that the total asset value of companies is positively related with the level of disclosure. The two-tailed significant level computed at 0.000 ( $p < 0.05$ ), which implies that there is a positive significant relationship between total assets value with the level of SBR disclosure.

#### **VI. Conclusion**

In relation to the format of disclosure, the result of the study is consistent with the prior studies provided over the past decades. Most of the disclosure types are qualitative and descriptive in nature [See Trotman (1979); Guthrie (1982)]. The vast majority of companies disclosed the SBR information in the general body of the annual reports and no company provides a separate section of disclosure booklet. Most of the companies preferred to disclose the information in the Chairman Statement's because it is more likely to be read by the users of annual reports. Guthrie (1985) also provided the similar findings in this aspect. Other popular locations of disclosure appeared in sections such as review of operations and diary of events. It is fully integrated with the mainstream activities of the organizations, which involved the benefits or welfare of the society. In these sections, some companies also included some photos for further description and narration purposes. The declining level of

overall disclosure of SBR may due to the economic downturn in 2008, which caused most of the companies to practice tight budget. In the year of 2009 and 2010, most of the companies keep their annual reports brief gradually.

Result also indicated that there is a significant positive association between companies' total assets value and the level of SBR disclosure. Result supports a number of prior studies that attempted to identify whether there is an association between company size and the level of SBR [See also Cowen, Ferreri and Parker (1987); Belkaoui and Karpik (1989); Hakston and Milne (1996); Deegan and Gordon (1996); Adams et al.(1998)]. The findings support those of Gray *et.al* (1995a); Deegan and Rankin (1996), Milne and Adler (1999), Campbell (2000), Holder-Webb *et.al.* (2008, 2009). This study also investigated the relationship between the level of SBR disclosure with profitability and paid up capital and found the positive association. There is also a positive correlation between level SBR disclosure and type of industries. The sectors that were found to disclose more SBR disclosure is trading and services (51,77%), followed by industrial product (37.59%), finance (34.75%) consumer product (25.53%) and properties (19.5%).

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**Table 1**

**Reliability of Measures**

No of cases	127
No. of items	4
Alpha	0.6970

**Table 2**

**Total Number and Percentage of Companies with Different Format of Disclosure (2009 – 2011)**

Type of Disclosure	Number & Percentage of the Companies					
	2009		2010		2011	
Qualitative	0	35.32%	5	31.91%	0	3.62%
Quantitative	4	14.47%	0	12.77%	5	9.69%
Declarative	9	8.09%	4	5.96%	2	45%
None	4	61.28%	8	67.23%	0	7.24%

\*Total Number of Companies Being Studied = 127 companies each year

**Table 3**

**Total Number and Percentage of Companies with Different Locations of Disclosure (2009-2011)**

Locations of Disclosure	Number & Percentage of the Companies

	2009		2010		2011	
Front Cover		7.09%		6.30%		7.09%
Mission / Vision		6.30%	0	7.87%	1	8.66%
Corporate Information		0.79%		1.57%		2.36%
Chairman Statement	9	.71%	3	.98%	0	.62%
Review of Operation	1	.54%	4	.90%	8	.17%
Safety, Health & Environment		0.79%		1.57%		2.36%
Community Relations		3.15%		3.94%		5.51%
Diary of Events	5	.69%	4	.90%	4	.90%
Financial Statements		3.15%		3.15%		7.09%
Others	5	.81%	5	.81%	3	.24%

\*Total Number of Companies Being Studied = 127 companies

**Table 4**

**Total Number of Companies with Different level of Disclosure (2009-2011)**

Year	Level of Disclosure (No. of Sentences)					
	1 - 10	11 - 20	21 - 30	> 30	Total	
2009	8	36	7	2	4	127
2010	6	32	4	1	4	127
2011	9	27	4	3	4	127

**TABLE 5**

**Correlations (Spearman Rank Correlation test between Total Asset Value with the level of disclosure)**

			No of sentence	To tal assets
Spearman's rho	No of sentence	Correlation Coefficient Sig,(2-tailed) N	1.0 00 705	.312** .0 00 70 5
	Total Assets	Correlation Coefficient Sig,(2-tailed) N	.312** .00 0 705	1. 000 70 5

**\*\*Correlation is significant at 0.01 level (2 tailed)**