

EMBRACING CORPORATE SOCIAL RESPONSIBILITY IN MALAYSIA – TOWARDS SUSTAINING VALUE CREATION

Faizah Darus

Accounting Research Institute and Faculty of Accountancy
Universiti Teknologi MARA, Malaysia

ABSTRACT

This paper aims to review the existing research on Corporate Social Responsibility (CSR) that has been undertaken in Malaysia in order to revisit and understand the current practices and disclosures of Malaysian companies and to suggest viable future directions in regards to CSR in Malaysia. This paper is primarily discursive and conceptual. The first part of the paper reviews existing research on CSR in Malaysia with a view to establishing a general overview of the current state of CSR in Malaysia. This review facilitates the identification of key dimensions which influence the management of CSR activities in Malaysia. The second part of the paper pinpoints key areas of CSR that can potentially be managed by Malaysian companies in order to place Malaysia in the fore-front in the field of CSR and to be at par with other developed nations. The third part of the paper highlights on the seven papers that have been included in the special issue and briefly describes how each one contributes to the field of research in the areas of governance, accountability and value creation.

Keywords: *Corporate social responsibility, governance, accountability*

Introduction

Society is increasingly calling for corporations to act responsibly towards the community and the environment. The pressures that are being exerted may be deemed to be a reflection of the growing discontent towards the irresponsible actions by corporations on society and the environment. In Malaysia, there has been an increasing interest in Corporate Social Responsibility (CSR) because as Malaysia moves towards becoming a developed nation by 2020, corporations are expected to be ethical and held accountable for their actions towards society, the community and the environment. There is growing evidence that Malaysian companies are engaging in CSR activities as well as incorporating these activities into their overall business-society relationship strategy (Amran & Devi, 2008; Amran & Siti-Nabiha, 2009; Ghazali, 2007; Hamid, 2004; Haniffa & Cooke, 2005; Thompson & Zakaria, 2004; Zain & Mohammad, 2007; Zain et al., 2006; Zarinah, 2006, Eljido-Ten, 2008, 2009; Yusoff & Lehman, 2009, Darus et al., 2009). This change in behavior could be attributed to the response by public-listed companies towards coercive institutional pressures (DiMaggio & Powell 1983) that were brought to bear by the government with the introduction of the mandatory disclosure requirements for public-listed companies and the introduction of Bursa Malaysia's guidelines on CSR dimensions in 2007, coupled with the heightened awareness of sustainability issues, resulting in the private sector becoming more amicable to CSR and what it entails.

An overview of the current CSR scenario as well as the way forward for CSR in Malaysia will form the basis of this editorial discussion which in turn will frame the research papers for this special issue of the Malaysian Accounting Review. The special issue is to commemorate the 2nd International Conference on Governance and Accountability (ICGA) 2012, with the theme *Ethics, Accountability and Governance: Towards Sustaining Value Creation* which was held in Kuching, Sarawak from 15 – 18 February 2012. The conference was organised by UiTM-ACCA Asia-Pacific Centre for Sustainability (APCeS), jointly with the Indonesian Centre for Social and Environmental Accounting Research and Development (ICSEARD); Social Responsibility Research Network (SRRNet) UK; DeMonfort University's Centre for Research into Organisation and Governance (CROG) UK; Audit and Accountability Research Unit (AA), Curtin, Australia; Centre for Accounting, Governance and Sustainability (CAGS), University of South

Australia; The International Group on Governance, Fraud, Ethics and Social Responsibility (IGonGFESR), Trakya University, Turkey; and Universiti Teknologi MARA (UiTM) Sarawak.

The ICGA conference, which was inaugurated in Solo, Indonesia in 2010, is a bi-annual conference which provides a platform for researchers to present their research findings and for academics and practitioners to exchange information and knowledge on issues of governance, ethics, accountability and CSR. The research papers in this special issue will fill the gap in the realm of academic literature especially in the issues related to governance, accountability and CSR in the Malaysian context, by providing corroborative evidence which could then further enhance the boundaries of research in these areas, along a number of dimensions.

The paper is organized as follows. In Section 2, the current development of CSR in Malaysia is summarised. Section 3 highlights the discussion on the way forward for CSR in Malaysia. Section 4 provides a summary of the papers that were included in this special issue, and finally Section 5 concludes the guest editorial.

Current State of CSR in Malaysia

This section will provide an overview of the current state of CSR in Malaysia emphasising on the disclosures made by public-listed companies based on Bursa Malaysia's four dimensions of CSR, namely community, environment, workplace, and marketplace. There are considerable volumes of literature that have documented as well as shed light on the state of CSR and the CSR reporting behavior amongst Malaysian companies (see for example, Amran & Devi, 2008; Amran & Siti-Nabiha, 2009; Ghazali, 2007; Hamid, 2004; Haniffa & Cooke, 2005; Thompson & Zakaria, 2004; Zain & Mohammad, 2007; Zain et al., 2006; Zarinah, 2006, Elijido-Ten, 2008, 2009; Yusoff & Lehman, 2009, Darus et al., 2009). Even though prior researchers did conclude that the reporting status of CSR information among Malaysian companies was still relatively low, the trend is however improving. In fact, the study by Thompson and Zakaria (2004) showed an increase in disclosure among public listed companies from 66% in the early 90's to about 82 per cent during the early period of 2000.

One of the earliest studies on CSR in Malaysia was undertaken by Teoh and Thong (1984). Their findings then revealed that CSR disclosures by Malaysian public-listed companies during that period of time focused mainly on human resource, followed by product/service while community and environment received the least attention. It is interesting to note that one of their findings revealed that Malaysian companies were not disclosing all their CSR activities. This could be due to the unstructured reporting framework for CSR disclosure that existed during that period of time, resulting in the failure by Malaysian companies to report all their CSR activities as they were unsure as to what they should be reporting; unclear on how they should be reporting, and most importantly unclear as to why they should be revealing those information.

The emphasis on the disclosure of human resource remained prominently highlighted even in recent literature (Che Zuriana et al. 2002; Zakaria 2002; Zain & Mohammad, 2007; Zain et al., 2006; Haron et al. 2006; Thompson and Zakaria, 2004; Yam, 2012) suggesting that the company's management continued to focus mainly on the development of their internal stakeholders (employees) as one of their primary CSR activities. This is consistent with the findings of Barney (1991) and Russo and Fouts (1997) who argue that companies will nurture their internal resources in order to enhance their performance. This will allow them to eventually gain competitive advantage in the long-term.

Commitment towards society began to manifest itself in CSR disclosures among Malaysian companies as found in recent studies (Prathaban & Abdul Rahim 2005; Hamid et al. 2007) with companies beginning to disclose more information under the community theme. The decision by companies to contribute to the economic development of the communities within their immediate location indicates their growing appreciation and concern toward their communities. This concern for community development is a promising trend as it will complement the government's effort towards the nation's development.

A recent study by Rahman, et al. (2011) found that the marketplace became the most popular theme of disclosure among government-linked companies. This indicates that government-linked companies are becoming more concerned about the product that they are offering to customers. This is a positive development as such organizations are deemed to be corporate

leaders and can be presented as exemplary role models for other companies to emulate. This may consequently result in an overall improvement in the quality of the products offered by Malaysian companies. Prior research on company characteristics and CSR disclosure produces inconclusive findings. However, profits, size, financial leverage, ownership structure and industry affiliation, were found to be significantly related to CSR disclosures in Malaysia (Ghazali, 2007; Zain, 1999; Darus et al., 2009, Rahman, et al. 2011).

Prior literature also indicates that environmental disclosure was given the least attention by Malaysian companies (Jaffar et al. 2002; Yusoff & Lehman 2009). Malaysian companies were merely voicing out their concerns on environmental issues and did not provide significant details of specific events. Environmental information disclosed tended to be narrative in nature and were skewed towards qualitative disclosure in an attempt to enhance the 'green' image of the companies. These are interesting findings since Thevaraj (2002) in his study reported that there were 367 Malaysian companies with ISO14001 certification at the time the study was done. This implies that even though Malaysian companies were environmentally certified they did not undertake activities to conserve the environment, hence resulting in the lack of disclosure. This could be because the ISO 14001 certifications were obtained merely to fulfil the requirements by foreign multinational corporations that mandated their suppliers to be ISO 14001 certified.

Towards Embracing CSR

In order to embrace CSR, Malaysian corporations must make behavioral changes with the objective of internalising the concept of CSR and more importantly, to view it from a holistic perspective. They must fully understand the concept and at the same time be convinced that such activities will simultaneously benefit the corporations' long-term interests and society's interests as well, and will ensure their sustainability. As such, CSR activities should be viewed from a long-term perspective and be embedded as part of their overall corporate strategy, ultimately linking them with their core business. CSR activities should be undertaken in line with their respective corporate missions and visions comprehensively and professionally, as opposed to approaching them on a piece-meal or

festive-season basis. In addition, corporations should not define success in terms of the quantum of reported profits but reflect success through their ability to create and sustain value to their businesses for overall corporate sustainability. In order to achieve this objective, there are a few key areas of CSR that can potentially be managed by Malaysian corporations in order to place Malaysia in the forefront and to be at par with other developed nations.

Firstly, some form of formalisation in respect of CSR must exist within the organisation. The overall corporate governance vision and mission must include specific components relating to CSR where core areas such as human rights, labor practices, the environment, fair operating practices, consumer issues, community involvement and development are strategised, unveiled and engaged in a holistic manner. Ideally, companies should name a board member whose overall responsibility will be to monitor the company's CSR-related undertakings and to have a CSR manager to oversee the implementation of the planned management-approved programs. CSR activities should not be viewed merely as public relations exercises and conveniently left to the devices of the corporate public relation section that is already burdened with other public relation-related activities, separate from CSR related issues. Malaysian corporations should stop using CSR activities for window-dressing purposes where they are keen to be seen as in sync with society's expectations but in reality they are far from reflecting their own internal values. Glossy CSR reports which are padded with eco images, charts and self-laudatory disclosures should be replaced with those that are more informative and quantifiable in nature that can be used by stakeholders to make capital investment decisions relating not only to financial matters but also to social and environmental issues that are of genuine concern to the companies.

Secondly, companies should incorporate CSR as part of their daily activities which will then influence their daily decisions and actions. Management accounting practices can be modified to enable organisations to be more sensitive towards environmental concerns such as to include environmental considerations in their investment appraisal techniques, budgets and product costing procedures. For example, banks as capital providers for construction projects can play a key role in promoting sustainable development among their clients by setting lending policies that emphasize on social and environmental issues. Even though the banking sector does not directly beget a negative impact on the environment, the consequent knock-on

effect of the banks' financing decisions may implicitly affect the natural environment (Thompson & Cowton, 2004). This is made possible through the banking sectors' direct as well as indirect influences on their clients' projects, which they finance and support.

Thirdly, in order to achieve greater corporate accountability and the fulfillment of stakeholders' demands, the accountants should take charge of the dissemination of all financial and non-financial information to external stakeholders in order to ensure that these disclosures are seen to be transparent and credible. Consideration should also be given to the non-financial information, such as the CSR reports, to be independently assured by third parties. Currently, most CSR and Sustainability reports in Malaysia do not have access to third party verification. As such stakeholders have no mechanism to ensure the accuracy and completeness of the non-financial information provided. As suggested by Ball et al. (2000) and O'Dwyer and Owen (2005), the voluntary nature of social and environmental reporting, the level of experimentation, and the diversity of practices have led to calls for third party assurances over the quality and accuracy of information disclosed.

Fourthly, companies should also consider social and environmental risks assessment as part of their overall Enterprise Risk Management (ERM) strategies. Daud and Yazid (2009) found that although the major corporations in Malaysia had previously endorsed an ERM framework, issues related to the mitigation of social and environmental risks elements were not part of their risk management strategy. The management of social and environmental risks may be particularly critical for certain socially and environmentally sensitive industries such as, for example, the plantation industry or the construction industry.

Finally, over the last decade, Malaysia has progressively developed to become one of the leading international hubs for Islamic finance. One of the reasons for Malaysia's success can be attributed to its well-established Islamic banking system infrastructure. Islamic Financial Institutions, whose operations are based on the *Syariah* principles and values as derived from the Quran and *Sunnah*, are currently using the conventional CSR framework and dimensions as guidance for their CSR activities and disclosures. These guidelines, which were developed in the context of the liberal market, were formulated without giving due consideration to Islamic laws and principles

and may not be suitable to guide the CSR strategies and practices of Islamic Financial Institutions. As such due consideration needs to be given to the development of a CSR framework that is based on Islamic values and principles to provide a holistic approach to CSR specific to Islamic Financial Institutions. In this context, *Syariah* audit could also encompass compliance with Islamic CSR.

Papers for the Special Issue

This special issue is commemorative in the sense that it marks a significant milestone in the journey of the International Conference on Governance and Accountability (ICGA). The articles published in this special issue were subjected to review by two anonymous referees. Research papers that were in line with the theme of the conference addressing the issues of governance, accountability and CSR were particularly welcomed for inclusion. Pursuant to the initial vetting of submissions that were received and the subsequent review process, six papers were chosen to be included in this special issue which, in our view, discusses the unique aspects of governance, accountability and CSR, especially relevant in the Malaysian context. The findings from these researches can contribute positively towards the improvement of the current situation in relation to corporate governance and accountability in Malaysia. The findings that will be gleaned from these papers can inspire regulators to formulate comprehensive and relevant policies or guidelines and for researchers to navigate their way through the existing body of work so as to ensure that their future research will contribute to the depth of extant literature, add to existing works and consequently lead to new or novel approaches in the areas of governance, accountability and CSR.

Issues relating to green supply chain management, environmental reporting and CSR towards the workplace are areas in CSR that warrant further investigation in the Malaysian scenario. Three of the papers in this special issue address these areas. The first paper by Noor Sufiawati Khairani, Indra Devi Rajamanoharan and Nagarethnam Thirumanickam presented the findings in respect of an investigation into a Malaysian case firm that incorporated green supply chain management practices in its supply chain. The second paper by Haslinda Yusoff and Faizah Darus explored environmental reporting practices in Malaysia and emphasized that reporting

practices served as a means for communicating business environmental accountability to the various groups of stakeholders. This paper offered insights into the environmental reporting practices of companies operating in Malaysia. The third paper by Yusniyati Yusri and Azlan Amran explored the employees' understanding of the concepts of CSR and their perceptions of it in relation to the workplace.

The non-profit and the public sectors have grown rapidly in Malaysia and issues pertaining to ethics, governance, and accountability within the realm of non-profit organisations and the public sector are becoming of increasing concern to the communities. Three of the papers in this special issue addressed the governance and performance of non-profit and public sector organisations. The first paper by Sharon Cheuk examined the performance of co-operatives by applying ratings based on the internal management factors of financial structure, liquidity, asset, management, earnings and information technology to 101 co-operatives located in Sabah. The second paper by Ruhaya Atan, Saunah Zainin and Yap Bee Wah examined the extent of information disclosures by charitable organisations and related the extent of these disclosures to their financial performances (as measured by total donations). The third paper by Nur Raihana Mohd Sallem, Noor Emilina Mohd Nasir and Asmah Abd Aziz examined the timeliness of the Kelantan local authorities' financial reports, specifically focusing on the accounts preparation lag, the audit lag and the association of the audit lag with the types of audit reports, the number of audit incidents and the preparation lag.

More recently researchers have highlighted the importance of innovations for value creation for stakeholders. Hence, the final paper in this special issue focuses on the adoption of Value Engineering (VE) as an innovative tool for value creation within the Malaysian automotive industry. This paper by Aliza Ramli, Suzana Sulaiman and Falconer Mitchell highlighted the importance of VE as an innovative tool for value creation, for various stakeholders.

Concluding Remarks

A review of prior literature in the context of the Malaysian scenario would seem to suggest that Malaysian companies had been focusing on the workplace in respect of their CSR activities, though, of late, concerns for the communities and product improvements have begun to materialize in their CSR activities. Sadly, concern for the environment remained the least important issue that was receiving their attention. The shift in emphasis from human resource to community development suggests that Malaysian companies are making a more proactive effort towards greater stakeholder engagements by being more concerned about the needs and demands of their communities.

In terms of disclosure, prior literature indicates that the level of CSR disclosure among Malaysian companies was still low with the declarative form and good news information dominating even though the quantity of disclosure is on the increase, even though CSR information reports were considered to be relatively low as compared to developed countries, evidence of maturity of engagement in CSR activities amongst Malaysian public-listed companies was manifested by the improvement in the information disclosed both in terms of quantity and quality of disclosure (Thompson & Zakaria 2004; Amran, 2006; Darus et al., 2009). Malaysian companies were also beginning to employ different forms of media to disseminate CSR information in addition to the ubiquitous annual reports, such as web site reporting and stand-alone CSR reports.

The global move towards integrated reporting, where corporations are expected to interface their strategies, governance and financial performances with their respective social, environmental and economic operational landscapes, provide an excellent opportunity for Malaysian corporations to revisit their commitments towards CSR. Whilst the government's and Bursa Malaysia's attempts at providing some structure to CSR reporting in Malaysia may have to a certain extent coerced and exerted mimetic institutional pressures on companies in Malaysia to enhance their CSR activities, these companies should be in their own right, aware of the intrinsic value of CSR and be ethically driven to undertake CSR activities.

References

- Amran, A., & Devi, S. S. (2008) The Impact of Government and Foreign Affiliate Influence on Corporate Social Reporting: The Case of Malaysia. *Managerial Auditing Journal*, 23,4:386 - 404.
- Amran, A., & Siti-Nabiha, A. K. (2009) Corporate Social Reporting in Malaysia: a Case of Mimicking the West or Succumbing to Local Pressure. *Social Responsibility Journal*, 5,3: 358-375.
- Ball, A., Owen, D.L., & Gray, R. (2000) External transparency or internal capture? The role of third-party statements in adding value to corporate environmental reports. *Business strategy and the environment*, 9:1-23.
- Barney, J. B. (1991) Firm Resources and Sustained Competitive Advantage. *Journal of Management*, 17:771-792.
- Che Zuriana M. J., Kasumalinda, A., & Rapih, M. (2002) Corporate Social Responsibility Disclosure in the Annual Reports of Malaysian Companies: A Longitudinal Study. *Social and Environmental Accountability Journal*, 22,2:5-9.
- Darus, F., Arshad, R., Othman, S., & Jusoff, K. (2009) Influence of Institutional Pressure and Ownership Structure on Corporate Social Responsibility Disclosure, *Interdisciplinary Journal of Contemporary Research in Business*, 1,5:123-150.
- Daud, W. N and Yazid, A. S. (2009) A Conceptual Framework For The Adoption of Enterprise Risk Management in Government-Linked Companies. *International Review of Business Research Paper*, 5, 5:229-238.
- DiMaggio, P. J., & Powell, W. W. (1983) The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields. *American Sociological Review*, 48, April: 147-160.
- Elijido-Ten, E. (2008) The Case for Reporting Pro-active Environmental Initiative: A Malaysian Experiment on Stakeholder Influence Strategies. *Social and Environmental Accounting*, 2,1:36-60.

- Elijido-Ten, E. (2009) Exploring the Impact of Media Publicity on Annual Report Environmental Disclosures: Paper presented at the 8th Australasian Conference on Social and Environment Accounting Research (CSAER 2009), Christchurch, New Zealand.
- Ghazali, N. A. M. (2007) Ownership Structure and Corporate Social Responsibility Disclosure: Some Malaysian Evidence. *Corporate Governance*, 7,3:251-266.
- Hamid, F. Z. A. (2004) Corporate Social Disclosure by Banks and Finance Companies: Malaysian Evidence. *Corporate Ownership & Control*, 1,4:118-130.
- Haniffa, R. M., & Cooke, T. E. (2005) The Impact of Culture and Governance on Corporate Social Reporting. *Journal of Accounting and Public Policy*, 24:391-430.
- Haron, H., Yahya, S., Chambers, A., Manasseh, S., & Ismail, I. (2006) Level of Corporate Social Disclosure in Malaysia. *Malaysian Accounting Review*, 5,1:159-184.
- Jaaffar, R., Mohd. Iskandar, T. Muhammad, N., (2002) An Investigation of Environmental Disclosures: Evidence from Selected Industries in Malaysia. *International Journal of Business and Society*, 3,2: 55 – 68.
- O' Dwyer, B., & Owen, D.L., (2005) Assurance statement practice in environmental, social and sustainability reporting: a critical evaluation. *The British Accounting Review*, 37:205–229.
- Prathaban & Abdul Rahim (2005) Big Earners, Small Givers, *Malaysian Business*, 9:12-16.
- Rahman, N. H. W. A., Zain, M. M., & Al-Haj, N. H. Y. Y. (2011) CSR Disclosures and its Determinants: Evidence from Malaysia Government Link Companies. *Social Responsibility Journal*, 7,2:181-201.
- Russo, M. V., & Fouts, p. A. (1997) A Resource-Based Perspective On Corporate Environmental Performance and Profitability. *Academy of Management Journal*, 40,3:534-559.

- Saleh, M., Zulkifli N. Muhamad, R (2011). Looking for evidence of Relationship between Corporate Social Responsibility and Corporate Financial Performance in an Emerging Market. *Asia-Pacific Journal of Business Administration*, 3,2: 165-190.
- Teoh, H. Y., & Thong, G. (1984) Another Look at Corporate Social Responsibility and Reporting: An Empirical Study in a Developing Country. *Accounting, Organizations and Society* 9,2:189-206.
- Thevaraj, V. (2002) Beyond ISO14001:Communicating Environmental Performance: paper presented at the ACCA Fifth Annual Conference on Corporate Social Responsibility: Changing the Way You Do Business, Singapore, 28 October 2002.
- Thompson, P. and Cowton, C.J., (2004) Bringing the environment into bank lending: Implications for environmental reporting, *The British Accounting Review*, 36:197–218.
- Thompson, P., & Zakaria, Z. (2004) Corporate Social Responsibility Reporting In Malaysia: Progress and Prospects. *Journal of Corporate Citizenship*, 13:125-136.
- Yam, S. (2012). Corporate Social Responsibility and the Malaysian Property Industry: paper presented at the 18th Annual Conference, Adelaide, Australia, 15-18 January 2012.
- Yusoff, H., & Lehman, G. (2009) Corporate Environmental Reporting through the Lens of Semiotics, *Asian Accounting Review*, 17, 3:226-246.
- Zain, M. M., & Mohammad, R. (2007) CSR in Malaysia: The Dawn of a Beginning. Shah Alam University Publication Centre (UPENA).
- Zain, M. M., Mohammad, R., & Ibrahim, M. K. (2006) Corporate Social Responsibility Disclosure In Malaysia. Shah Alam: University Publication Centre (UPENA).
- Zakaria, Z. (2002) Corporate Social Reporting in Malaysia, MBA thesis: Malaysia: University of Malaya.
- Zarinah, A. (2006, September 2006) Making a Difference Through CSR. *The Edge - Corporate Social responsibility: Doing Business with a Conscience*, 4-7.