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LEVEL OF CORPORATE SOCIAL DISCLOSURE IN MALAYSIA

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The research examines the level of corporate social disclosure among Bursa Malaysia listed companies during the period of recession of financial crisis and also during the pre and post financial crisis periods. The level of disclosure is measured using content analysis. The sample of 135 companies analysed included companies that existed from 1996 and remained going concerns until the year 2000. The disclosures on corporate social responsibility were found primarily in chairman's' reports. Our results show that the highest level of disclosure was in 1998, that is the period just after the economic crisis period. The human resource theme was the most disclosed item. Disclosures were mainly qualitative and favourable in nature.

Introduction

Corporate social disclosure (CSD) gives information to the public regarding a company's activities that relate to the community. Examples are information on their commitments to reducing hazardous impacts on the environment, to improving waste management, to showing compliance with the Malaysian Environmental Quality Regulation 1989, to making efforts to protect their employees and to other social issues affecting the public. We observed a trend towards increasing levels of disclosure. However, the levels of disclosures are still low (Teoh & Thong, 1984; Foo & Tan, 1988; Ho, 1990 and Shireenjit & Zuaini 1998). In 2002 onwards, efforts are being made by ACCA to promote the corporate social reporting through the MERA (Malaysian Environmental Reporting Awards) and MESRA (Malaysian Environmental and Social Reporting Awards) awards given to Bursa Malaysia Listed Companies.

In Malaysia, CSD is voluntary. The choice of social issues disclosed tends to reflect the Malaysian Government's priority or the particular obligations, which companies have. CSD may have the potential to strengthen stakeholder relationships as reporting promotes corporate transparency and instills greater confidence and trust amongst stakeholders. CSD represents an additional

channel for engaging stakeholders in a dialogue, and it enables companies to identify and address key issues of concern to their stakeholders.

CSD reporting companies may gain an edge in capital, labour, supplier and customer markets, compared to their silent peers. Disclosure may enhance reputation specifically within CSD's themes – for example by engendering an image of environmental responsibility – and thus facilitate improved access to clients and buyers with “green” procurement policies. Socially responsible investment, where companies to be invested in are screened prior to investment using social and environmental criteria, is growing exponentially. Green issues and CSD generally are no longer seen as anti-market behaviour: rather they drive market value to the extent that market capitalization is at a premium for CSD-responsible companies (Deregulation Report, 1998).

Evidence of hazards caused by unethical behaviour in Malaysia is not unusual. For example, the hazards caused by logging in Tasik Kenyir's catchment area have caused serious environmental damage around the lake. Several areas along Sungai Galong have shown severe sedimentation and have become prone to landslides. Logging in the catchments areas near to the dam caused damage to hydroelectric capabilities due to the sedimentation produced, and is expected to have a serious effect on ecotourism. Logging in the area would cause soil erosion, landslides, sedimentation, an impact on downstream activities and an increase in treatment costs for water (New Straits Times, 2003). Further, impacts of waste management and pollution not only affect society but also pose health threats. In such cases openness of disclosure is vital. A necessary pre-requisite to disclosure is that the CSD level of the entity should first be measured objectively.

The financial crisis that hit Malaysia in mid-1997 through 1998, brought about greater attention towards better transparency in both the public and private sectors (Deregulation Report, 1998). Amongst the reasons for increased disclosure is enhancing and maintaining reputation, enhancing shareholder's value, decreasing business risks and recognition as an employer of choice (ACCA, 2004). The Malaysian Code of Corporate Governance issued in 2001 enhances the importance of transparency in Bursa Malaysia's Listed Companies.

The above discussion leads to the conclusion that, although there have been many positive developments, CSD in Malaysia is still in its infancy (Tan, 1998; Thomson, 2002; ACCA, 2004). This study was designed to capture more up-to-date evidence of the level of CSD in Malaysia. Future developments depend on a sound knowledge of the level and character of contemporary CSD disclosures.

Specifically, the research objectives of this paper are to determine the level of CSD in each of the years 1996, 1998 and 2000. 1996 represents the pre-financial crisis year, 1998 represents the financial crisis year and 2000 represents the post financial crisis year. Malaysia entered into financial crisis in the year 1998 and was on its way to recovery by the year 2000. The study expects the disclosure during the financial crisis year to be higher than that of the pre and post financial crisis years. This is because the financial crisis will have an impact on the confidence of the shareholders with respect to the company's growth prospect and share performance. The company will therefore disclose more information to show that the companies are being well managed in order to gain the shareholders' confidence.

Literature Review

The survey report by ACCA (2004) found that an increasing number of companies engaging in Corporate Environmental Reporting (CER). From 1999 to 2001, the number increased from 25 to 40 representing 5.3 and 7.7 per cent respectively of the Bursa Malaysia Main Board Listed Companies. It was also found that all reporting companies used their annual report for communicating environmental information to their stakeholders. 85 per cent of those using CER devoted less than a page to it in the annual report.

KPMG published its International Survey of Corporate Sustainability Reporting in 2002. Sustainability Reporting includes social and environmental reporting. The survey examines the reporting practices of the top 100 companies in 19 countries and found that 72 per cent of Japanese companies, 49 per cent of UK companies and 36 per cent of US companies issue environmental, social or sustainability reports in addition to their financial reports. Royal Dutch/ Shell Group of companies leads in this report maybe because it is involved in oil and chemicals and as such they feel that communicating its “environmental footprint” to the wider community is critical to demonstrating that it is doing its best to preserve the environment. That way it maintains its “license to operate”. Shell has won a lot of awards including Joint Best Sustainable Reporting in the Association of Chartered Certified Accountant’s (ACCA) UK Sustainability Reporting Awards (Thomson, 2002).

A survey conducted by Nottingham University Business School Malaysia Campus on 2001/2002 annual reports of the top 10 local companies (by market capitalization) reveals that seven companies made reference to the environment. However, only half a page was devoted to to the environment and the substance was typically just a policy statement and some unsubstantiated declarative statements along the lines of “Company X has taken a proactive stance in pursuing a policy of environmental management at several levels” (Thomson, 2002). The study also found that British American Tobacco (Malaysia) Berhad is the leader in environmental reporting in Malaysia. In May 2002, it published its stand alone Social Report 2001-2002. The report summarizes both the social and environmental effects of its business activities. Thomson went on to say that CER as of 2002 is low in quantity and quality. The implication is that Malaysians have little idea how the activities of local companies affect their natural environment, such as the quality of the air they breathe and the seas they swim in.

ACCA (2004) reported that many companies tend to report on the environmental much more than they do on their social reporting.

Earlier studies (Teoh & Thong, 1984; Foo & Tan, 1988; Ho, 1990; Shireenjit & Zuaini 1998) have also revealed that CSD in Malaysia is still generally low even though it has been shown that users of accounts utilize CSD disclosure in their decision making processes (Benjamin & Stanga, 1977; Firth, 1979). Apart from the fact that CSD comes within the voluntary disclosure category in Malaysia, the nature of Malaysian companies means that they tend to be biased towards more secrecy rather than showing greater transparency (Carlson, 1995). Unlike the United States, CSD is a voluntary disclosure. It means that CSD disclosures in Malaysia are more likely to be indicative of a genuine commitment to social responsibility by a disclosing company.

CSD provides information regarding a company’s activities in relation to environment, energy, human resource, and product and community involvement. Corporate social

disclosures include details of the physical environment, energy, human resources, products and community involvement matters (Hackston & Milne, 1996).

Research on Corporate Social Disclosure by Countries

For the purpose of this research, the literature was divided into studies done in different countries at different time frames. It should be noted that past research on CSD lacks a consistent approach – whether in terms of (a) research method, (b) sample selection or (c) the period of study. This poses problems of accuracy of comparison between research studies.

Even as early as the late 1960s, work had been done on the amount of social disclosures within the annual reports of companies (see Ernst & Ernst 1978; Trotman & Bradley, 1981). Past work in the social accounting field indicated a gradual increase in the amount of social disclosure in company annual reports (Trotman & Bradley, 1981; Gray, Owen & Maunders, 1987; Cowen, Ferreri & Parker, 1987; Guthrie & Parker, 1990; Gray, Kouhy & Lavers, 1995). The reasons for the increase were found to be related to many factors – such as increasing living standards leading to increased awareness of social matters. Further, there has been a wide and increasing coverage by academic researchers of corporate social reporting for more than two decades, which also might have contributed to a better understanding within companies of social issues.

To date, the majority of empirical studies have focused on USA, UK and Australia, with less work done in other countries – for example Canada, Germany, Japan, New Zealand, Malaysia and Singapore (Hackston & Milne, 1996). For the US, an early survey by Ernst & Ernst (1978) was extensive, and Guthrie & Parker (1990) provided a more recent survey. For the UK, Gray et al. (1987, 1995a) produced survey evidence followed by studies for the years 1979-1991. For Australia, early work was conducted by Trotman (1979) and Guthrie (1983). In New Zealand, Ng (1985) produced some evidence on disclosures.

Malaysia

Recently in Malaysia, Shireenjit & Zuaini (1998) studied the general level of social responsibility disclosures by the corporations listed on the KLSE. Their study examined 159 annual reports of companies in 1994. Their findings revealed that, at 3.9%, the overall social responsibility reporting status for Malaysia was very low. This low level of CSD may be due partly because of the fact that disclosures of social responsibility are voluntary in Malaysia. However, Malaysian corporations play a significant role in society and therefore, they should have some awareness that any activity involving society must be disclosed and audited (Ooi, 1990).

An earlier study, by Andrew, Gul, Guthrie & Teoh (1989), looked at 119 annual reports of public listed companies in Malaysia and Singapore for the year ending 31st December 1983. The overall number of companies that disclosed was 31 (26 per cent). In terms of industrial sectors, the banking and finance industry had the biggest proportion of CSD disclosing companies. This public status may have led the management of DBS to disclose more social information. These results also aligned with Foo and Tan's (1988) study, which found that a higher proportion of large and medium sized companies disclosed social information compared with small companies.

Singapore

In Singapore, Foo and Tan (1988) researched 299 of 305 Malaysian and Singapore companies listed on the Stock Exchange of Singapore at year ended 1985. The study found higher levels of corporate social reporting in Singapore companies compared to Malaysian companies. This could be linked to the extensive industrialization program Singapore has embarked upon, associated with Singapore attaining the highest per capita gross national product in Asia. Since the 1980s, CSD in Singapore is most likely to have attained greater importance due to their higher living standards. The authors also found that large Malaysian and Singapore companies had higher CSD than their smaller counterparts, regardless of whether company size was measured in terms of market capitalization, asset value, paid-up capital, profit before tax, or turnover. This finding of the relationship between firm, size and CSR confirms that of Guthrie and Mathews (1985). Singapore's finance sector had the highest incidence of CSR, while the hotel sector had the lowest.

New Zealand

In New Zealand, Hackston and Milne (1996) conducted research on the determinants of social and environmental disclosures in New Zealand companies. They found that most disclosures were about human resources, with environment and community themes also receiving significant attention. The nature of these disclosures appeared to be 'declarative', giving positive information. The amount of disclosure made averaged about three quarters of an annual report page.

United Kingdom

In the UK, the analysis of CSD will be affected by the fact that there is some regulation to report CSD in annual reports. One review of UK annual reports for social and environmental disclosure over the years 1979 to 1982 (Gray, Owen & Maunders, 1987) showed a general rise in the proportions of companies then disclosing CSD. This was linked to the increase in the mandatory disclosures in the UK. By the end of the 1970s, the corporate social disclosure could be specifically classified within a page of employee-related disclosure, which also included disclosures on charitable donations. Towards the early 1990s, although the employee-related disclosure still comprised the majority of the UK corporate social disclosures, the disclosure covered a wider range of employee-related matters. Further, community and environmental disclosure had grown significantly (Harte & Owens, 1991).

In general, in the UK between 1979 and 1991, CSD rose by 4 times. Reasons for this increase could be related to the changes in disclosure regulations, which made the disclosure of some themes, mandatory. Employee-related disclosures dropped from approximately 90 per cent of total to about 78 per cent, and community and environmental reporting rose from approximately 10 per cent to 32 per cent of total disclosure. Something that had not been identified previously in the literature was the increase in health and safety disclosures: this seems to have been associated with the general rise in environmental concern and with the increase in major widely publicized accidents involving loss of life. Although there is a need for the economic and efficient use of energy, a very low level of energy and customer information was found.

Australia

In Australia, a more recent study of the environmental disclosure practices of Australian corporations was conducted by Deegan & Gordon in 1996. The review was based on 197 company annual reports. The disclosure levels were determined using content analysis, individual words being the basic unit of measurement. The results showed that the disclosures were largely qualitative in nature. The location of the disclosures was typically within the company chairman's report, managing director's report or equivalent.

Although the negative results reported by the above study were low, they were higher than previous research by Guthrie and Parker (1990). The maximum number of negative disclosures is 85 words or about five lines. Only 14 companies out of the entire sample disclosed any negative environmental matters. Further, the overall difference between the extent of positive and negative disclosures found that of the 71 firms that disclosed environmental information, 70 firms provided significantly more positive than negative information. The maximum level of environmental information was 1049 words – or about two pages.

In Malaysia, the maximum level of environmental information for a company was about one and a half page. In their study of Australia, there did appear to be a significant increase in disclosure practices over the period 1988 to 1991. That increase in reporting was positively associated with an increase in environmental group membership of the study (Lehmann, 1983 & 1992). Further, the highest levels of reporting seemed to relate to the timeframe where the mining, steel and oil industries were being criticized by environmental groups, the disclosures being made in reaction to those criticisms.

United States of America (USA)

Studies in the USA were conducted by Ernst & Ernst (1978) and Guthrie and Parker (1990). Guthrie and Parker (1990) found that 85% of US companies then disclosed some form of corporate social information. Energy and product themes were found to have received more attention compared to other countries surveyed. This can be linked to regulations that require these disclosures.

Themes of CSD

Many studies have been conducted both in Malaysia, Singapore, United States, United Kingdom, Australia and New Zealand to investigate the themes that fall under the definition of CSD.

Environment

The environment theme can be defined as those disclosures that explain the company's activities within the environment. For example, efforts to reduce emission of chemical into the air or water, are in compliance with the Environmental Act and implementation of environmental friendly techniques.

Within the federal system, the Malaysian government has jurisdiction over most business issues – except for land and water matters, which relate to local government and

come under what is known as the constitutional list of state functions. Federal ministries exercise significant policy, budgetary and regulatory powers, but devolution to environmental authorities within the states of the enforcement and management of environmental laws is proceeding.

As for the key authorities dealing with the environmental issues, the Department of Environment (DOE) in the Ministry of Science, Technology, and Environment (MOSTE) is primarily responsible for standard setting, monitoring and (with the states) it enforces pollution regulations. Some of the major concerns of the DOE are air pollution and river, coastal and marine water quality. However, DOE's jurisdiction over these matters is limited in the federal-state system. The government takes samples from selected rivers to monitor heavy metal contaminants, including arsenic, cadmium, mercury and lead.

The DOE requires companies to prepare environmental reports about their activities, depending upon the companies' activities and their adherence to environmental regulations. If the companies' activities cause damage to the environment, the DOE can request an environmental report to be submitted to them. The Environmental Impact Assessment (EIA) is also an important document that gives account of the environmental impact of new projects by the companies. MOSTE supervises the environmental impact assessment (EIA) process.

The Environmental Quality Act (EQA) of 1974, contains provisions for air, noise, and water pollution; degradation of land and oil pollution. The environmental policy objectives are to maintain a clean and healthy environment, minimize the environmental impact of a growing population and growing human activities, balance the benefits of socioeconomic development against the need for sound environmental conditions, emphasize prevention and conservation measures to preserve the country's unique and diverse cultural and natural heritage, incorporate environmental concerns into project planning through EIA studies, and promote greater cooperation among federal and state authorities as well as ASEAN governments. Fifteen regulations have been enacted under EQA, the latest addressing growing environmental threats from hazardous waste. Environmental regulations within EQA include the "Control of Lead Concentrations in Motor Gasoline" (1985), "Sewage and Industrial Effluents" (1979), "Control of Smoke and Gas Emissions" (1977), "Clean Air" (1979), and "Schedule of Wastes for Treatment and Disposal Facilities" (1989). The government also recently completed guidelines for the management and disposal of petroleum wastes, zoning and site regulations, and burning of timber. DOE continues to seek ways to improve its monitoring of compliance with its ambient air and water quality and effluent and emissions control standards. The air and water standards in Malaysia are within international guidelines and are consistent with most countries in the region.

An amendment to the EQA was passed in June 1996 by Malaysia's Parliament. It established higher penalties for pollution violations. DOE was also authorized to order polluting firms to engage a third party to conduct environmental audits. The amendment also allowed DOE to close plants if they appear to cause risks to public health. DOE was also to collect taxes from industries for the waste they generate in order to fund environmental research, conservation, and pollution prevention.

The penalties in Malaysia have become more stringent. Penalties for air, soil, inland water and noise pollution are now RM\$40,000 and jail sentences from two to five years. The Environmental Quality Council formed under EQA is the body responsible for

recommending environmental policy for legislation. The council includes members of the federal and state governments, academia, the private sector, and nongovernmental organizations (NGOs). It can be seen from the above that the environmental awareness and efforts by the Malaysian government in terms of regulations and enforcement are in the right direction.

This emphasis and oversight by these organizations may be a primary reason why disclosures among companies in Malaysia in this area are on the increase.

Energy

The energy theme includes disclosures that provide information on how companies generate their energy source – specifically if their efforts conform to environmentally friendly measures. This theme may have lower disclosures in its own right, as there are many of these disclosures that can be subsumed within the environment theme. However, our study places this theme separately because it does have specific disclosure implications. For instance, energy conservation falls within this classification and does not clearly fall into the environment category. Other examples are disclosures of plans of companies relating to such issues as waste management or where companies use recycled materials to generate energy.

Human Resource

The NDP (National Development Policy 1991-95) and the Seventh Malaysia Plan 1996-2000 had their principal objective to upgrade human resource development. The development of human resources continues to be principally a task carried out by the government and public training organisations. It is recognised that this fundamental character is not likely to change.

Unemployment in Malaysia in 1998 increased to 3.9 per cent from 2.6 per cent in 1997, affecting workers mostly in urban areas. In the absence of unemployment benefits, employers were encouraged to avoid exacerbating unemployment by providing partial salary and wage reductions, reduced working hours and training. Upgrading human resources has long been a fundamental long-term economic challenge for the improvement of Malaysia's international competitiveness and the pressure on public expenditure intensified with the crisis. Sustained growth is seen as requiring not only high levels of investment in physical capital but also a higher quality of human resource inputs from labour, management and entrepreneurship.

Human resource development is therefore seen as needing to be accelerated so as to enhance the prospects for future economic growth. With natural resources becoming less plentiful and labour becoming scarcer, the contribution to growth must increasingly come from improvements in productivity and efficiency. Human resource development plays a vital role in raising productivity and providing the professional, management and technical skills needed for the growth of the economy particularly during the process of transformation towards becoming an industrialized nation. Further, it serves as a powerful tool to improve income distribution by enhancing the opportunities for lower income groups to have access to the modern sectors of the economy and providing for mobility into higher levels.

Product

The integration of the Kuala Lumpur Options and Financial Futures Exchange (KLOFFE) into the Kuala Lumpur Stock Exchange (KLSE) in 1998 can be regarded as a significant factor in this form of CSD. The efforts towards this would have resulted in the expansion of product development and of education in derivatives. The existing technology infrastructure and operation systems in KLSE provide a comprehensive base to enhance the present services of KLOFFE and to facilitate the introduction of new derivative products and services. Of particular urgency is the speeding up of the introduction of new products and services in a cost-effective manner.

Community Involvement

This theme involves disclosure relating to the community. The primary reason may sometimes be to portray a good public image. In Malaysia, general support by companies of social affairs has always been present. This includes donations to orphanages, activities with the elderly.

Nature of Disclosure

The themes are disclosed in writing by means of narrative in quantitative and/or qualitative form and will also tend to be expressed in a negative or positive manner. The nature of disclosure is discussed further below.

Type of Disclosure

Previous studies show that disclosures are biased (Deegan & Rankin, 1996). Disclosures may be made to protect the interests of the company without considering the accuracy of the disclosure. Previous studies also show that more disclosures were positive in nature (Deegan & Rankin, 1996).

Positive disclosures generally present the company as operating in harmony with the environment (Deegan & Gordon, 1996). Examples would be disclosures stating that the company is conducting training for their staff or that new waste management policies are being undertaken. Negative disclosures present the company as operating to the detriment of the natural environment (Deegan & Gordon, 1996). Examples of these would be an inability to control or reduce pollution or a failure to solve a social problem.

The type of disclosure is examined in this study to facilitate checking the usefulness and the accuracy of the disclosure.

Location

The locations of the disclosures are also recorded. Information on location is significant in conveying the relative importance of the disclosure. The locations that were examined were (a) the chairman's report, (b) the financial statements and notes to accounts, (c) the directors' report and (d) the review of operations. The location of the disclosure indicates the importance placed by the company on disclosures (Unerman, 1999).

From the viewpoint of the authors of the annual report and of many readers of the report, it seems that CSD contained in the Chairman's statement is likely to carry more weight than that contained in the detailed notes to accounts. Our study also only discloses the result of the study of the location of the information in a descriptive way – i.e. the frequency of a disclosure in a particular location. This is because it is believed that ignoring altogether such data in any qualitative analysis risks losing part of the richness of any CSD practices.

Quantitative and Qualitative

Previous studies (Trotman, 1979; Teoh & Thong, 1984; Guthrie et al., 1987; Ho, 1990; Shireenjit & Zuaini, 1998) show that disclosures were mainly quantitative (monetary) or qualitative (narrative). However, companies tended to make disclosures that were qualitative.

The quantitative disclosures were mainly disclosed under the human resource theme that was related to retirement benefits and training for employees (Shireenjit & Zuaini, 1998).

Measurement Tool

Previous studies (Hackston, 1996; Ng, 1985) have used number of pages, number of sentences, number of documents, proportion of a page proportion of total disclosure and number of words as a measure of the amount disclosed. This study used the proportion of pages devoted to different themes of social disclosures over the total pages of the annual report. The CSD disclosures were enumerated in terms of the proportion of a page taken up by each disclosure. A grid of 20 rows of equal height and five columns of equal width was laid across each CSD disclosure.

The volume was counted as the number of cells on the grid taken up by a disclosure. This method overcame the problems faced by other studies that measured in terms of numbers of characters, words or sentences and which therefore ignored potentially highly informative non narrative CSD disclosures (for example photographs or charts). Those methods are known to omit potentially powerful and highly effective methods of communication (Beattie & Jones, 1992; 1994; Preston, Wright & Young, 1996). Our study used the proportion of pages to prevent these problems and to capture the data as completely as possible.

Ng (1985) in his study used number of words because he was of the opinion that studies that used the proportion of pages might not have been very accurate due to variations in print sizes, column sizes and page sizes between one annual report and another. However, studies based on the use of words require decisions as to the words that fall within the CSD context – which is difficult because there is a question as to whether a word might be assumed as having a CSD context without the meaning of the whole sentence being taken into consideration.

The use of sentences in one New Zealand study (Hackston & Milne, 1996) may overcome the problem of proportion of pages and avoid the need to account or standardize the number of words. However, two sentences can still be identical and have different font sizes.

Methodology

This study focused on the year 1996 (pre-recession), 1998 (during recession) and 2000 (post recession) because the study hypothesized that companies disclose CSD to fulfill their social responsibilities and to legitimize their social activities. The results of the study of that year were then compared to 1996, which reflected a pre-recessionary period, and then with the year 2000 which reflected a post recession period. The results could be expected to differ. As mentioned there were many developments after Malaysia was hit by the 1998 recession.

The themes that make up CSD are important because the level of disclosure differs according to theme. The CSD is expected to increase in a recession year, as companies normally would wish to prove their worthiness especially during bad times when profitability is impaired. This level during recession was then compared with the other two years (being pre and post recession times). The socio-economic conditions at the time, especially in 1998, saw efforts of the government to increase productivity as a way of overcoming the economic downturn at the time.

Unit of Analysis

The unit of analysis was companies listed in the KLSE for the years of study. Specifically, the study examined the CSD within annual reports of the sample population. This study was exclusively based on annual reports – which is consistent with past studies.

From Table 1, it can be seen that almost all of the past research made use of content analysis and examined the corporate annual reports to determine levels of disclosure. The annual report is regarded as the main form of company communication (Legal & Ahmed, 1990; Unerman, 1999). It is also widely available (Buhr, 1998; Unerman, 1999).

The information has its own credibility (Tilt, 1994). It is of interest for not only what is reported but also what is not (Adam & Harte, 1998). In this study, this is an important point as the disclosure level is very low. Therefore, the disclosures not shown are still of interest. The annual report is where the company's choices regarding factors and social relationships that they have placed more importance on, are seen to be addressed publicly.

Annual reports also have the convenience for research purposes in that they are regularly produced and offer the means to comprehend something of managements' thinking at that period (Nelmark, 1992). A further reason for the use of annual reports is because it is difficult to identify all corporate communications on social matters over a long period of time. The non-annual report may not be complete and may affect the consistency of the content analysis studies (Gray, Kouhy & Lavers, 1995b).

Data Analysis Technique

This research used content analysis to measure CSD. This method was chosen for its ability to analyse different types of communication tools including those in written mode (Krippendorff, 1980). The method implies that the content, frequency and volume of reporting give an indication of the importance of the disclosure (Deegan & Rankin 1996).

Content analysis is defined as a method of codifying the text (or content) of a piece of writing into various groups (or categories) depending upon selected criteria (Weber,

Table 1: Characteristics of Selected Papers Which Have Used a Form of Content Analysis as a Research Method

Paper	Documents analysed		Measurement method						
	Annual report and accounts only	No. of documents	No. of words	No. of sentences	No. of pages	No. of pages	No. of pages	% of total disclosure	
Adams et al. (1996)	✓	✓						✓	
Adams and Harte (1998)	✓	✓							
Adams et al. (1998)	✓								✓
Ball et al. (forthcoming)		✓							
Buhr and Freedman (1996)		✓							
Buhr (1998)	✓			✓					
Cowen et al. (1987)	✓	✓					✓		
Deegan and Rankin (1996)	✓			✓					
Deegan and Gordon (1996)	✓			✓					
Ernst and Ernst (1978)									✓
Gray et al. (1995a)	✓	✓							✓
Gray et al. (1995b)	✓	✓							✓
Guthrie and Parker (1989)									✓
Guthrie and Parker (1990)	✓								✓
Hackston and Milne (1996)	✓								✓
Harte and Owen (1991)							✓		
Ince (1997)									✓
Nea et al. (1998)	✓					✓			
Odwyer and Gray (1998)	✓					✓			
Roberts (1991)	✓								
Simmons and Nea (1996)		✓							
Thomas and Kenny (1996)	✓	✓							
Trotman and Bradley (1981)	✓	✓							
Tsang (1996)	✓	✓							✓
Zeghal and Ahmed (1990)							✓		

1988). Following the process of coding, quantitative scales are derived to allow further analysis. Krippendorff, (1980, p21) states that,

“Content analysis is a research technique for making replicable and valid inferences from data according to their context.”

Agency Theory

Agency theory shows the relationship between shareholders of companies who act as ‘principals’ and managers of companies who act as their ‘agents’ (Fama & Jensen, 1983). Management makes policy and executive decisions in the running of the company as, in comparison with shareholders, they are a much less diffuse group and they have better and timelier access to requisite information than shareholders. To be able to monitor the activity and performance of their agents, the principals need financial and other information. Otherwise the agent would be able to behave so as to serve the agents’ own interests to the detriment of the principal’s interests. Agency theory suggests that there is a tension between these two parties, with both striving to maximize their own return and each acting as a counterbalance to the unbridled appetite of the other. Agency theory helps to demonstrate the clear difference between ownership and control. However, principals exercise external control over the entity largely in order to safeguard their investment, while management exercises internal control to give management reasonable assurance of the achievement of entity objectives. Agency theory also accommodates the perspective that entity stakeholders other than those who provide share or debt capital – such as staff, local communities, environmentalists and so on – also strive to make their voices heard.

The agent-principal tension leads to agency costs – for example monitoring costs, bonding costs and residual loss from dysfunctional decisions. Managers are likely to disclose information if they think that it may reduce such costs. Previous studies show that better and more disclosure may reduce transaction costs such as brokerage fees. Other benefits include lower cost of capital and increased share liquidity (Choi & Levich, 1990).

In this study, it is assumed that the higher the level of disclosure, the more transparent the company. This means that managements of companies will be willing to be more accountable in the running of companies, which would be to the benefit of the stakeholders.

Legitimacy Theory

The Legitimacy theory is:

“Based on the notion that business operates in society via a social contract where it agrees to perform various socially desired actions in return for approval of its objectives, other rewards and its ultimate survival.”

(Guthrie & Parker, 1989)

There may be many alternative uses of the resources that an organization uses. Therefore, society evaluates the usefulness and legitimacy of the organisation’s activities. To achieve the aim of social worthiness, it is important to obtain legitimacy.

The disclosure practices of companies in Malaysia may be driven by the need to legitimize their activities. Several previous studies have applied legitimacy theory in an attempt to explain the extent of disclosures of CSD. It has been argued that how a firm operates and reports will be influenced by the social values of the community in which it exists (Dowling & Pfeffer, 1975; Gray, Kouhy & Levers, 1995a; Guthrie & Parker, 1990; Lehman, 1983; 1992).

To assess the applicability of this theory to CSD, this study has analysed the socio-economic conditions relating to the environment of the companies reporting CSD. For each major category of disclosure, the timing of disclosure is compared with the socio-economic conditions occurring immediately before or during disclosure. Although economic performance was previously perceived to be the best measure of an organisation's legitimacy now it is also expected that businesses,

“Make outlays to repair or prevent damage to the physical environment, to ensure health and safety of consumers, employees and those who reside in the communities where products are manufactured and wastes are dumped.”

(Tinker & Nelmark, 1986).

It is interesting to note that these are some of the examples of the types of disclosures that are found in this study.

Legitimacy theory posits that if the organization does not appear to operate within the bounds of consideration to the public, which is considered appropriate by society, and then society may act to remove the organisation's rights to continue operations. In essence, the company has been granted a tacit license from society to operate. Further, society may revoke their “social contract” unless the organization undertakes particular strategies, such as providing information to offset the negative news, which may be publicly available. Legitimacy theory suggests that organizations disclose information as a means of establishing or protecting the legitimacy of the organization by influencing public opinion (Patten, 1992; Hackston & Milne, 1996).

Both mandatory and voluntary nature of disclosures in Malaysia would be affected by their financial accounting structure. The new structure outlined by the Financial Reporting Act (1997), which includes the accounting profession – specifically the Malaysian Accounting Standards Board (MASB), together with the regulators both play a role in carrying out a proper system of financial reporting. In line with the mandatory disclosure requirements, an important factor within the new structure is the clause within the Act that requires that the standards issued by the MASB are legally binding upon the financial statements. Therefore, any financial disclosure that complies with the accounting standards and theory (and/or with the Stock Exchange rules and the Companies Acts) comes within mandatory disclosure (Penmann, 1988).

In Malaysia, the mandatory requirements are determined by both the professional and governmental bodies – primarily the MASB, the Malaysian Institute of Accountants (MIA), the Securities Commission, the Central Bank and the Companies Commission of Malaysia. These bodies' functions include ensuring that investors are given at least the minimum requisite disclosure about the company's performance that will aid them in their decision making.

On the other hand, additional disclosures that appear in published financial statements, which go beyond conformity with these regulations and involve discretion

on the part of the management, can be defined as voluntary disclosures. Voluntary disclosures can be distinguished from disclosure that are required or suggested. This categorization between mandatory and voluntary disclosures varies from country to country.

Countries are sometimes known to disclose more because they think that there is some benefit to be obtained by it. (Mueller, Gernon & Meek, 1994). In Malaysia corporate social disclosures come within the voluntary disclosure as they are not required by any accounting regulation in Malaysia. These represent an expression of the corporation's social responsibilities. It was the Financial Reporting Act 1997 that provided for the creation of the Financial Reporting Foundation (FRF) and the MASB. The members of the FRF are made up of representatives from a variety of parties. They include members from industry associations, the accounting and legal professions, financial analysts and regulatory authorities such as the Securities Commission (SC), Bank Negara Malaysia (BNM), the Companies Commission of Malaysia (CCM), Ministry of Finance and the Kuala Lumpur Stock Exchange (KLSE) – in order to regulate and supervise the financial system.

Findings

The descriptive statistics of the dependant and independent variables are given in Table 2 to Table 6. This section provides the findings for the first research question and its sub-questions. It comprises a presentation of the level of CSD in terms of the frequency that companies disclose CSD and the proportion of CSD over the annual report for the years examined. Furthermore, this section provides the findings on the frequency of companies and the level of CSD disclosed by the various themes, by location, and by the type of industries.

Table 2 reports descriptive statistics of the companies for the three years examined. The average score for the level of CSD in 1998 is .012, which is the highest of the three years.

Table 2: Descriptive Statistics of Overall CSD

Year	Minimum	Maximum	Mean	Std. Deviation
1996	.00	.087	.008	.014
1998	.00	.082	.012	.015
2000	.00	.112	.007	.016

Table 3 shows the total number of companies that disclose some form of CSD for each year. It was found that 65 companies disclosed some form of CSD in the year 1996. The highest number of companies disclosing were in the year 1998 with 72% of companies disclosing some form of CSD. The number of companies fell in the year 2000 with only 61 companies making disclosures. The per centage of disclosure of an annual report for the three years is also shown. The highest disclosure falls within the year 1998 with a disclosure of 1.59, which are about one and a half pages over the annual report. The high disclosure

in this year can be related to the socio-economic conditions in Malaysia at that time. This will be explained later.

Table 3: Number of Companies Disclosing CSD

Year	Number of companies	Percentage of companies	Percentage of annual report
1996	65	48%	1.04
1998	97	72%	1.59
2000	61	45%	0.99

Table 4 shows the number of companies that disclose a certain theme within the three years and the per centage of disclosure of an annual report by the different themes. The results, whether by the number of companies or the level of disclosure, were consistent.

The *human resource* theme received the highest number of disclosure for all three years in terms of the number of companies and the CSD level. Examples of the type of disclosure for the human resource theme include information on restructuring exercises to strengthen management and core competencies, providing sufficient funds for welfare and social amenities including medical services for employees, promoting team spirit and creating higher levels of awareness and loyalty. The disclosure for this theme peaked in the year 1998 with 62 companies disclosing a proportion of 0.56 of an annual report. This can be linked with a strong awareness of the importance of human resource development policies during that time. The principal objective of the NDP (National Development Policy 1991-95) and the Seventh Malaysia Plan 1996-2000 was to upgrade human resource development.

As mentioned, the results of this study show examples of disclosures within this theme – for example, promoting efforts towards employee health & safety, training of employees and establishment of training centers. They coincide with the aim of upgrading human resources, particularly in the area of training. Upgrading human resources has

Table 4: Level of Disclosure by Theme

Year	1996		1998		2000	
	Number of companies	% of annual report	Number of companies	% of annual report	Number of companies	% of annual report
Environment	20	0.18	26	0.19	23	0.16
Energy	1	0.03	2	0.04	1	0.05
Human Resource	48	0.42	62	0.56	27	0.16
Community Involvement	21	0.1	23	0.15	21	0.19
Products	26	0.24	24	0.19	15	0.16

long been a fundamental long-term economic challenge for the improvement of Malaysia's international competitiveness and especially as the pressure on public expenditure intensified during the crisis. Human resource development plays a vital role in raising productivity and providing the professional, managerial and technical skills needed for the growth of the economy, particularly in the process of transformation towards becoming an industrialized nation. This could be the main reason that the disclosure level is not only the highest throughout the three periods but also particularly high in the year 1998.

Another theme that follows is the *product* theme. Examples are statements that products meet safety standards, achievement and commitment to ISO 9001/9002 award and environmentally friendly use of products. In the year 1996, 26 companies disclosed a proportion of 0.24 of an annual report. This can be associated with the move towards the integration of the Kuala Lumpur Options and Financial Futures Exchange (KLOFFE) into the Kuala Lumpur Stock Exchange (KLSE) in 1998. The efforts towards this resulted in the expansion of product development and in education on derivatives. Of particular urgency is the speeding up of the introduction of new products and services in a cost-effective manner. In the year 2000 the disclosure within this theme fell. This could have been affected by the downturn in the economy in 1998 that led to the shift of efforts to other pending areas.

In the year 1998, the *environment* theme came second highest with 26 companies disclosing a proportion of 0.19. The examples of disclosures under this theme includes information on conduct of regular monitoring and audit of all possible sources of pollution, implementation of total quality and environment management, waste water management, environmental control systems and statements of compliance with Department Of Environment requirements. These can be linked with developments in this area, for example, the presence of authorities and their efforts to protect the environment.

It can be seen from the above that environmental awareness together with efforts by the Malaysian government in terms of regulations and enforcement are in the 'right' direction. The focus by governmental and regulatory organizations may be a primary reason why disclosures by companies in Malaysia are on the increase.

The *community involvement* theme came third in the year 1996 and the year 2000. This theme includes disclosure on blood donation campaigns, cash donations to welfare organizations and community outreach programmes. The reason companies disclose on this theme could be to show a good public accountability image.

The *energy* theme made little disclosure. This could be because the items within it sometimes are classified under the environment theme.

The results of this study are consistent with previous studies of Pang (1982), Shireenjit & Zuaini (1998) and Mohamed Zain (1999).

Table 5 shows the number of companies by different industries and level of disclosure. Overall, the three industries that had the highest disclosure were the same in all three years. In all three years, the highest disclosure was by the trading and services industry, followed by the Industrial Product industry and then the Finance industry.

The types of industry involved were divided into high profile and low profile industries. According to Hackston & Milne (1996), the nature of a company's industry has been identified as a factor potentially affecting CSD practices. Whether the industry is high or low profile should affect disclosure. In this study, the high profile companies consist of industrial products, mining, plantation and trading/services whilst the low

Table 5: Level of Disclosure by Industry

Year	1996		1998		2000	
Industry	Number of companies	% of annual report	Number of companies	% of annual report	Number of companies	% of annual report
IP	20	0.24	24	0.40	19	0.33
CP	6	0.09	8	0.16	8	0.13
F	8	0.08	16	0.17	9	0.09
TS	22	0.52	31	0.42	22	0.26
P	3	0.03	6	0.06	4	0.03
C	7	0.06	16	0.19	9	0.07
PL	2	0.02	5	0.03	6	0.04
H	1	0	3	0.05	1	0.04
IPC	0	0	1	0.07	0	0

profile companies consist of close end fund, construction, consumer products, finance, infrastructure project companies, hotel, property and trust.

It was found that the high profile industries (trading and services and industrial products) do show a high disclosure rate. However, the other high profile industry, plantations, show a very low level of disclosure. However, pollution from the rubber and palm oil industries beginning in the mid-1980s has reduced due to the cooperation between industrial associations and the government in environmental matters. Here, then, although efforts have been taken they may not have been recorded due to the lack of regulatory requirements so to do. Furthermore, in the plantation sector a factor to be noted during the year 1998 is that, the crisis-induced rising costs of inputs only partly affected the cost of agriculture outputs. Instead, adverse weather conditions reduced the cultivated area and yields, while labor shortages pushed price levels up. In 1998, declines in the crude palm oil production by 8.3 per cent and natural rubber production by 8.8 per cent, resulted mostly from yield reduction. This was due to a number of reasons, mainly, dry weather. In the case of crude palm oil, the decline in production was also due to lower yields, arising from the downturn of the biological yield cycle of the oil palm trees. These setbacks may have caused this industry to focus on their problems and thus may have resulted in a deficiency of disclosure.

Table 6 shows the number of companies that disclose by industry by theme and the proportion of disclosure of an annual report by different industries by different themes. Again the results are consistent.

Overall, the *Industrial product* industry discloses the human resource theme the most, followed by the environment theme and then the community involvement theme. The examples of companies that are within this industry are the Cement Sdn Bhd, Tractor Sdn Bhd and Petronas Sdn Bhd. As can be seen, these companies have a clear strong relationship with society and their environment. This may be the reason that they are disclosing higher CSD.

The environment and community involvement theme had the same amount of disclosure and both ranked third for the *Consumer Product* industry. The product theme and the human resource theme ranked first and second. It can be seen that companies in

Table 6: Number of Companies from Different Industries Disclosing Different Themes

Theme/ Industry	Year	IP	CP	F	TS	P	C	PL	H	IPC
Environment	1996	6	2	0	6	2	2	0	0	0
	1998	7	3	1	7	2	4	2	0	0
	2000	9	2	0	6	3	3	2	0	0
Energy	1996	1	0	0	0	0	0	0	0	0
	1998	2	0	0	0	0	0	0	0	0
	2000	1	0	0	0	0	0	0	0	0
Human Resource	1996	11	2	6	17	2	3	1	1	0
	1998	17	6	12	11	3	11	11	1	1
	2000	10	1	9	5	0	4	3	1	0
Community Involvement	1996	5	0	4	6	0	1	1	0	0
	1998	3	5	6	6	1	2	2	3	1
	2000	4	2	6	6	1	2	1	2	2
Product	1996	8	3	1	7	1	4	0	0	0
	1998	7	5	2	8	1	3	1	0	0
	2000	2	4	1	5	1	3	0	0	0

this industry place priority in promoting their products. Examples of companies in this industry are Ayamas Sdn Bhd and Carlsberg Sdn. Bhd. The third ranked theme here;

The *Finance* industry mainly disclosed on the human resources and community themes as their activities relate to community interaction. The companies here were mainly the banks and finance institution.

The *Trading and Services* industry had human resources, product and environment as their three ranked themes. These industries may be disclosing high levels in the human resources theme, as this is a valuable asset for them. Examples of companies in this industry were The Star Publication and Jaya Jusco Sdn Bhd. Furthermore, good management of their human resources portrays good image.

The *Properties* industry had high environment and human resource disclosures. The environmental disclosure might have been to give confidence to the public that their activities do take this factor into consideration.

The *Construction* industry had high disclosures in their three ranked themes – which are human resources, product and environment. Companies whose economic activities modify the environment, such as extractive industries, are more likely to disclose information about their environmental impacts than are companies in other industries (Dierkes & Preston, 1977).

The other industries had relatively low disclosure levels. This was most likely because of the absence of regulations. The results of their disclosures (whether measured by the proportion of pages over the total pages or by the number of companies) are quite consistent. Table 6 shows the frequency of CSD by their different themes.

For all three years the highest disclosures were found in the chairman's reports. This was followed by the review of operations and then by the directors' reports and finally the notes to accounts. These findings are similar to the study of Harte & Owen (1991) and Shireenjit & Zuaini (1998).

The number of companies that make non-monetary disclosures only accounts for nine companies – that is 1% of the population examined in the year 1998. The disclosure for all other companies in the other years was all non-monetary. Another finding was that none of the disclosures were “bad news” in nature. These results are consistent with the results of the work by Tsang E.W K. in Singapore (1998) and the work of Guthrie.

Conclusions

The general level of CSD whether in terms of the number of companies disclosing or in terms of the CSD proportion of the annual report was found to be low among Malaysian companies. The descriptive results show the levels of CSD in terms of the number of companies and the proportion of the annual report. It was found that the highest disclosures were in the year 1998. This indicates that CSD disclosure during the recession period is higher than that of the pre and post recession periods, though that it not necessary to say that CSD reporting levels are counter-cyclical to economic cycles in a general causal sense. There may be several reasons for our finding.

Firstly, as discussed the agency theory linked increasing disclosures to a reduction in agency costs. During the financial crisis, shareholders may have had more concern about the performance of the companies to counter the financial crisis. Therefore,

companies may have much to gain by higher disclosures. Furthermore, the legitimacy theory also suggests that companies may increase disclosures to boost public confidence and avoid public image.

The Malaysian government's objective, efforts and direction during the economic downturn in 1998 were to monitor developments, to improve the regulatory framework and to ensure sufficient provisions of social benefits. The Government reallocated the budget to support social priorities and set up targeted programs for this. Budget resources were redistributed so as to retain the original 1998 budget allocation of the Development Program for the Hardcore Poor (PPRT) and to limit cuts to the 1998 budget of ministries providing social, rural development. Our study postulates that the reaction of companies during that period was support to the government's call by means of higher disclosure.

Finally, the Finance Committee, in its Report on Corporate Governance (February 1999), had recommended that public listed companies report on the state of their internal controls. Although the report was issued in 1999 the movement towards this effort may have started a few years earlier. This recommendation was also in line with the principle of corporate governance contained in the Malaysian Code on Corporate Governance, which states that a company should,

“Maintain a sound system of internal controls to safeguard shareholders' investment and the company's assets”.

This begs the question as to whether Malaysian companies interpreted the required 'sound system of internal control' as relating to CSD issues rather than merely to more prosaic aspects internal control over financial reporting, operational efficiency and effectiveness and legal and regulatory compliance. Companies might be focusing their efforts on corporate governance disclosures and had paid less emphasis on corporate social reporting. This could be a reason why CSD in 1998 shows a higher level of disclosure than in 2000.

The Report on Corporate Governance manifested the Finance Committee's responsibility to maintain appropriate standards of corporate responsibility and accountability in order to achieve greater disclosure and transparency to its shareholders and the investing public. This is another reason why companies might be disclosing more information during that period.

However, beginning 2001, there were a series of efforts by the government and the private bodies to environmental reporting by giving awards such as the Malaysian Environmental Reporting Awards (MERA), National Annual Corporate Reporting Awards, Bursa Malaysia Corporate Awards and the Prime Minister's Hibiscus Award. Realising that social reporting is also important, ACCA launched its Malaysia Environmental & Social Reporting Awards (MESRA) 2004 (ACCA, 2004).

Our findings reveal also that the number of the companies active in CSD and the level of CSD are quite consistent. The highest disclosures were made in the year 1998 with 97 companies disclosing about one and a half pages of the annual report. The human resources theme was the most frequently disclosed theme. The industry that made the most disclosure was the trading and services industry.

The highest theme overall was the human resources theme. This can be linked with the legitimacy theory whereby companies disclose more to fulfill their perceived social obligations. Malaysia went into financial crisis in the mid-1997. However, government

efforts and budget allocations were directed towards human resource development. Companies were urged to upgrade human resource skills and increase productivity to curb falling profits. It may seem unlikely for companies to increase CSD, which falls within voluntary disclosures in times of recession. Therefore, the findings that the level of disclosures, while higher than at other times, were nevertheless minimal (with an average of one page of the annual reports devoted to CSD) is in line with expectations for a recessionary period.

The preparers of accounts seem to think that human resources deserved higher disclosures in line with government efforts (compared to that of other themes) again seems to point to legitimacy theory by way of explanation. Coupled with the fact that most disclosures presented favorable news, companies may be trying to prove that they are not doing too badly during times of difficulty. These types of minimal disclosures during difficult times may be to avoid unfavourable public reaction.

If corporations consider the cost and benefit of providing information, they may reduce the disclosures that do not fall within mandatory requirements. Therefore, they may well cut pages allocated to CSD.

We consider it is significant that the preferred location of disclosures was in the chairman's reports. This is consistent with other studies. Disclosures within this location are more lightly regulated, or not regulated at all. The disclosures were generally qualitative in the main and again represented favourable news. Finally, the type of disclosures within different themes mainly includes narrative favorable news.

This research, as with other studies, has its limitations. Firstly, this study only used annual reports to examine companies' disclosures. Other forms of disclosure, such as separate environmental reports may be significant and growing forms of disclosure – ideally they should be investigated together with annual reports. This might reveal a more complete picture of companies' disclosures and means of communicating effectively with their stakeholders.

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