

Determinants of CSR Disclosure: A Study on the Listed Fast Moving Consumer Goods (FMCG) Companies in Bursa Malaysia

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ABSTRACT: As the rising of the corporate social responsibilities (CSR) is becoming a concern since the millennium year, especially by large or public listed companies in Bursa Malaysia. However, there are not much of those companies willing to disclose their CSR information to the public. Therefore, this endeavour is to investigate the content of CSR in annual reports and examine the significant relationship between determinants and CSR disclosure of listed fast moving consumer goods (FMCG) companies in Bursa Malaysia. This is a quantitative research, which involve content analysis since it adopted annual reports as main data resources. CSR, financial, and organisation information are going to be extracted to reckon the relationships between the variables and CSR disclosure by using CSR index and multiple regression. Result based on the analysis indicated that only two variables were significantly correlated with the CSR disclosure, which namely profits earned and independent directors. The top three elements that the most disclosed by these companies are general philanthropy, community programs and employee welfare. This study is important and its helps company in business decision making as this provide the extent of CSR disclosure of the industry. In addition, this study can be as reference to other companies for future CSR implementation.

Keywords: Corporate Social Responsibility (CSR), Information Disclosure, Bursa Malaysia, Annual Reports, Fast Moving Consumer Goods (FMCG)

I. INTRODUCTION

In the initial stage, companies participated in corporate social responsibilities (CSR) activities were just simply a contribution to the society and environment. Due to the several factors such as the rapid acceleration of technology development, constantly shifting of market realities, and the mutative of globalization, companies see CSR as one of their marketing tools to polish their brand image and increase the reputation of company's name. Many researchers gave the same answer towards the statement of CSR which helps in bringing up the reputation of company. Therefore, more and more organisations engaged in CSR by paying lots of serious efforts in it.

However, previous study showed the level of CSR of Malaysian public listed companies (PLCs) are remained low since year of 1980 [1] and [2]. Therefore, the Bursa Malaysia Securities Berhad Main Market listing Requirements (Listing Requirements) which was amended in September 2006, makes it mandatory for PLCs to provide a description of the CSR activities or practices undertaken by them [3]. This successfully resulted the disclosure rate of CSR projects from PLC in Malaysia was boosted, with the combination of the efforts by government's policies, recognitions and awards such as ACCA Malaysia Sustainability Reporting Awards [4]. Malaysia's government outlined the incentives for companies with CSR programmes and introduced the needs for disclosure their CSR activities in its 2008/2009 National Budget (Malaysia Budget, 2008). However this brought us the result of varied information was found from the disclosure of companies' CSR activities due to the absence of standard for CSR disclosure.

There are two objectives included in this study. Firstly, the extent of CSR disclosure in the annual report of fast moving consumer goods (FMCG) companies in Bursa Malaysia is identified. Consequently, the findings of the significant relationship of determinants and CSR disclosure is investigated. Many researchers had examined the relationship between determinants and CSR disclosure. But none of the research is focusing into one single industry field, especially the FMCG companies which are now become the focus point of whole supply chain in this newly GST implemented country, as it directly affecting large scale of population. The previous studies on the relevant titles are more likely to pick the PLCs randomly from each industry. In additional, some of the studies got its' sample size are small for example 14.3% [5], 25% [6], 14%-29% [7]. Not only that, there is no research investigates on these determinants, which including the corporate governance characteristics simultaneously with CSR disclosure. Hence 5 determinants, included the corporate governance characteristics were chosen, which are profitability [8], company size [9], share return [10], level of leverage [11], and independent directors [12].

II. LITERATURE REVIEW

2.1 CSR overview

Corporate Social Responsibility, as known as CSR, is became a hyped topic as it shrouded nowadays' business conferences and controversy. Assorted viewpoints were brought to the industries since there has no exactly definition and standard for companies to implement and measure. According to Archie B. Carroll (1983), the definition of CSR stated as follow:

“Corporate social responsibility involves the conduct of a business so that it is economically profitable, law abiding, ethical and socially supportive. To be socially responsible then means that profitability and obedience to the law are foremost conditions when discussing the firm’s ethics and the extent to which it supports the society in which it exists with contributions of money, time and talent.”

This definition of CSR is most satisfied by public as it stated CSR is something flexible and ever-changing, and in fact a gauge of the business-society relationship itself. In the 1991, Carroll [13] strengthen the CSR concept and brought us the pyramid of CSR which shows the four types of responsibilities should be covered by a company. Also there is another statement, which CSR is defined as open and transparent business practices that are based on ethical values and respect for the community, employees, the environment, shareholders and other stakeholders (Bursa Malaysia, 2008). Basically, CSR is a concept which a company explicit consideration of the impacts of their activities on all the stakeholders in terms of economic, social and environmental.

While in Malaysia the development of CSR has over time, moved to higher levels and Malaysia is recognized as being among the most active emerging economies in relation to corporate responsibilities [14]. Companies are increasingly recognizing CSR as a business priority [15], as the perceived CSR is able to bring them benefits regardless tangible or intangible form.

2.2 Stakeholder Theory

According to the Strategic Management: A Stakeholder Approach wrote by [16], stakeholder is defined as “group of people who can affect or can be affected by the achievement of the organization’s objectives” and “groups who are vital to the survival of the organization”. In term of CSR, stakeholders are the groups of people who gain benefits from the activities of companies. Stakeholder theory is used to measure organization effectiveness by its ability to satisfy not only shareholders, but other stakeholders’ interest as well [5]. This theory is a popular concept which adopted by various companies since the trend to benefits the companies’ stakeholders had spread globally and boundless. All this can be explained by the anxiety of people to their sustainability in the high competitiveness industry.

2.3 CSR Disclosure

According to the CSR Guidance and Reporting in Malaysia, there has been a steadily risen of disclosure rate of CSR since 1999 [3]. Many companies realized the importance of CSR. Hence, they promote their CSR efforts as a way of shaping public perceptions, deepening and widening the market, and building good will with stakeholders. It is perceives that with CSR disclosure, the company will increase its reputation, able to attract investing fund, and allow compliance of certain legislation and regulatory [17].

2.4 Profitability

Based on the prior studies [18], [19] have documented that profitability was not significant variable affecting the CSR disclosure [12] and [20]. But according to [21], there is positive high correlations of profit and level of CSR disclosure annual reports of companies on manufacturing industries are listed in Indonesia Capital Market. Furthermore, [22]stated that the CSR for government and staff has a significant positive relation with corporate profitability from 156 companies in Shanghai Stock Exchange in 2008.

2.5 Size of Company

According to [12], disclosure of CSR information from large company can be expected more to portray their citizenship, thereby legitimizing their existence. Regards to the study of [23], large firms implement more activities and may give greater impact to the society. This is because smaller size company may cost relatively high cost of disclosing CSR information than the larger firm. Previous studies stated there is a positive relationship between size of company and CSR disclosure [24]; [6]. The reason summed up is larger company may be more scrutiny by various group in the society and thus the pressure of CSR reporting acts on these firms [9] and [25].

2.5 Return of Share

From the study of [26], found that firms with higher earnings per share (EPS) believe the increase of CSR disclosure could decrease cost of equity capital and attract dedicated institutional investors. According to the study of [27] supported such statement by indicated that companies with higher EPS more likely to disclose CSR information to increase the transparency of companies and may change internal management practices by creating incentives for companies. However, some researchers disagree the above statement. For example, the relationship of stock return and CSR disclosure is flexible, neither positive nor negative [28]. Higher EPS cause a company prefer to disclose the employee issues, instead of environment and social issues which irrelevant to stock prices.

2.6 Leverage

Usually firms with high level of debt expected to provoke high monitoring costs. Monitoring costs are incurred when the principals attempt to monitor or restrict the actions of agents. It is argued that when a firm is making a large use of debt, a monitoring problem arises between stockholders and creditors [29]. Thus, the involved firms may solve this problem by increasing the level of voluntary disclosure [30], to ensure creditors are less likely to bypass their covenant claims. Also, many researchers claimed that the debts of companies did not place a single affect to the disclosure of information. From the studies by [31] and [32] are not able to find any relevance between debts and disclosure of information.

2.7 Independent Director

Independent directors used to ensure that the shareholders' interests are taken into account at the stage of board decision, enhancing corporate image and monitoring its management run properly. In Malaysia, the number of independent directors occupy one-third of the board membership as to ensure the effectiveness and fairness of management team in monitoring role. Large board of independent directors in a company willing to contribute in the voluntary of CSR reporting. This study was supported by [33] and [34], which their result are consistent with the statement of positive of relationship between independent directors and CSR disclosure.

2.8 Theoretical Framework

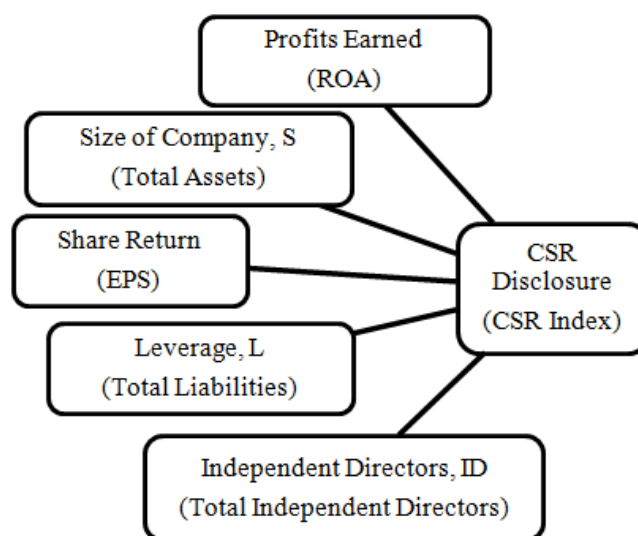


Figure 1: Determinants of CSR Disclosure

The variables used were explained as Fig. 1 and each relationship of an independent variable with dependent variable represent hypothesis.

III. METHODOLOGY

The study's sample is focus on the FMCG companies, in the industry of consumer goods, which listed in Bursa Malaysia. It is easier to obtain a more complete report from PLCs as compare with those not listed companies, as CSR disclosure is included in the Listing Requirements since year 2006. Timeframe for this study basically and mostly falls on year 2015, due to the reason of the availability of most-up-to-date CSR information for the industry as Malaysia experienced GST implementation and depreciation of Ringgit. All those information are to be collected from the annual reports of the companies. Therefore, this research is completely relied on secondary data as main resource to conduct the empirical research.

Parametric analysis is used for the study since the measurement of the variables is stated in various units. Not only that, scoring method also used for the calculation of CSR index, whereby 1 score is awarded if there is an item in the check list is disclosed; if not 0 will be recorded. The number of items disclosed was then divided by total number of items in checklists to arrive at CSR index. The CSR index was then used as dependent variable in the study.

Multiple linear regression analysis technique is also used for the measure of relationship between various determinants and CSR disclosure. This method is adopted by many researchers in their previous study [12]; [5]; [23]. According to [5], this technique is implemented because it fit many explanatory variables and allows higher flexibility as the variables that are affecting dependent variables can be explicitly control.

IV. RESULTS

Out of 69 FMCG companies, there are total 35 (50.7%) annual reports with the financial year of 2015 were found. The major occupancy came from food and beverage companies, which is (42.86%). The second largest types of FMCG companies is apparel and cosmetics (28.57%). For pharmaceuticals and health care products companies, it owned the total percentage of group about 11.43%. Whereas toiletries and stationary and books companies are both possessed (8.57%). Result of CSR content were being recorded and summarized in the Table 1.

Table 1: Extent Disclosure of CSR

Aspects	Items	Score (%)
Community Involvement	General philanthropy	100
	Participation in government social campaigns	51
	Community programs (health and education)	89
Environmental	Environmental policies	66
	Environmental protection program	66
	Award from environmental protection	37
	Support for public/ private action design to protect the environment	71
Employee Information	Employee appreciation	63
	Discussion on employee welfare	83
	Information in accidents	46
	H&S Standards	63
	Policy on training	37
Product and Services Information	Discussion of major types of products	49
	Pictures of major types of products	80
	Improvement on product quality	31
	Improvement in customer services	49
	Customer awards/ ratings received	49
Value-added Information	Value-added statement	63

1.1 Multiple Regression Analysis

This analysis method were adopted in this study to find out the how much the variance of dependent variable is explained by the independent variable. Table 2 shows the model summary of the study.

Table 2: Model Summary of Multiple Regression Analysis

Model	R	Square	Adjusted R Square	Std. Error of the Estimate
1	.837 ^a	.701	.649	.105058

R square is the statistical measure of how close the data are to the fitted regression line. Jim Frost (2013) mentioned that R square is the percentage of the response variable variation that is explained by a linear model. Commonly, the higher the R-squared, the better the model fits to the data. Refer to Table 2, the R square for the data is 0.701. This signify that 70.1% of the variance for CSR disclosure is accounted by the five selected independent variables in the model.

Table 3: The Coefficient of Multiple Linear Regression Analysis

Model	Unstandardized Coefficients		t	Sig.
	B			
(Constant)	.096		.286	.777
ROA	.459		2.391	.024
S (Lg10)	.002		.046	.964
EPS	.001		.808	.426
L	.071		.604	.551
ID	.924		4.331	.000

From the regression analysis above, a summary can be drawn, which CSR is positively related to S (size of company), ROA (profits earned), EPS (share return), L (leverage), and ID (independent directors). There are some variables stated that not with CSR disclosure due to their significant level is more than 0.05, which are size of company (0.964), share return (0.426) and leverage (0.551).

On the other hand, two variables are categorised as variables that have significant positive relationship with CSR since the significant level of both variables are lower than 0.05. These variables are ROA with 0.024 significant value and independent directors, with significant level at 0.000162. These case implies that CSR disclosure rate is directly proportional to the profitability and number independent directors of the company. In the nutshell, profits and number of independent directors of company have positive influence on CSR disclosure for FMCG companies in listed Bursa Malaysia.

V. DISCUSSION AND CONCLUSION

5.1 Extent of CSR Disclosure

In order to identify the content of CSR disclosed by FMCG companies, CSR information were recorded and the outcome has shown in Table 1. Based on the result, the top three most disclose aspects are general philanthropy (100%), community program focusing on health and education (88.60%), and discussion on employee welfare (82.90%). These companies tried to benefit to their stakeholders through various charity works and philanthropy, without consider the activities whether is huge or small. Most of the companies did take part in the CSR activities such as donations to build schools, and even bus stop regardless in rural area or city; donations for bazaars by cash or items and donations to non-government organisations (NGO) like old folks home and orphanage house. They also attempts to arise the environmental awareness among the various layers of society as they realize the importance of a clean and comfortable environment able to enhance a better life status and keep peoples in pink of health. Thereby, these companies also used to implement health programs as health is an invaluable asset for each individual. They believe the good health status of their workers can ensure the quality performance by lowering the rate of absence. Many companies emphasized in employee welfare in their annual reports. It believes that the existence of harmony environment and lovely culture in an organization is able to increase the employee satisfaction and loyalty, thus, high quality performance created from employee.

5.2 Relationship between Determinants and Disclosure

The objectives to investigate on the relationship of CSR disclosure and determinants was accomplished by using analysis of regression. The result generated from the analysis showed that profits and independent directors have significant influence to CSR disclosure. Independent directors help a company to disclose more information on CSR through the pressure given to the executives. This is because independent directors is acting a monitoring role to the company. The more the number of independent directors, the more the effective of the monitoring role to guide and control the management team. Therefore, CSR disclosure are emphasised in the annual reports, as this could be attract more green investors and polish the brand image. Financial performance of a company is believed to directly bring impact to the CSR disclosure. Companies with large profits earned are tends to disclosure more CSR information, as they have enough budget to implement the CSR activities. Larger profits earned also pursue the company to unlock the achievements from various aspects such as reputation and social value instead of only in financial success.

Despite of those variables are proven to be significant to the CSR disclosure, there are still another three variables' result were found opposite, which are size of company, share return and leverage. Compare with previous studies [30][6], these inconsistency results are predictable due to the fact that these studies are brought out from an assortment of different nature of the models and empirical backgrounds.

5.3 Conclusion

CSR disclosure rate in Malaysia is still in nascent stage. This study is aimed to contribute to the literature review on the CSR disclosure in this country, and also provide references to the management team and investors for business decision making. The research is focused on CSR disclosure and the selected determinants, which are profits earned, size of company, share return, leverage and independent directors, are concluded with various outcomes. Both objectives were achieved when the trend of CSR was being tracked and relationship between determinants and CSR disclosure is justified. The result implies that top three elements of CSR that being most concerned by listed FMCG companies are general philanthropy, health and education community program and employee welfare. While for the determinants, profits and number of independent directors have significant relationship with CSR disclosure.

In the sum of all, CSR disclosure rate can be increased by the company's profits earned and independent directors. It can be seen that the profits earned by a company is enhancing the CSR disclosure in those listed FMCG companies by providing larger budget for the implementation and preparation of CSR

disclosure. The role of independent directors also act on the CSR disclosure by ensuring the companies on the right track and the shareholders' interest arriving in board decisions.

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