

ANALYSIS OF CORPORATE SOCIAL PERFORMANCE (CSP) LEVEL OF MALAYSIAN PUBLIC LISTED COMPANIES

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ABSTRACT

Social performance (SP) in Malaysia has received a greater attention from the government and business fraternities, as it will contribute to a growing pool of capitals and enable the companies to attract more investors. Past research have shown that involvement in the corporate social responsibility (SR) activities will lead to better SP, and subsequently the companies gain the long term benefits such as attract consumers, employees and investors, increases sales and market shares and decreases business risks. Despite all the advantages of SR, the level of SP for developing countries is still at the beginning stage and it is not considered yet as one of the business strategy to enhance financial performance as practiced in developed countries. This is due to the economic, social and cultural conditions differences. Based on literature, national socio-culture environment and level of national economic development are the important variables influencing SP understanding and practices. Therefore, the aim of this study is to examine the level of company SP and nature of their SR activities. This study uses content analysis technique in order to identify company SP level. The measurement is based on Global Reporting Initiatives (GRI) for social and environmental rating. GRI performance indicator rate the CSR activities based on social disclosure of multiple dimensions from company disclosure in annual report. Sample of this study comprises of 262 public listed companies in Bursa Malaysia for the year 2010, 2011 and 2012.

Keywords: corporate social performance, social responsibility, global reporting analysis (GRI)

INTRODUCTION

Social performance has received greater attention from policy makers, investors, academicians, government, and public at large have paid increased attention to corporate social performance (Lu, Chau, Hang, & Pan 2014; Melo 2012a; Ducassy 2012; Stephen et al. 2006). Companies with stronger social performance are more likely to attract consumers (Brown & Dacin 1997), employees (Albinger & Freeman 2000; Greening & Turban 2000), and investors (Godfrey & Freeman 2000; Luce, Barber & Hillman 2001). Social performance also increases sales and market shares (Auger et al. 2003) and decrease business risk (Orlitzky & Benjamin 2003). Moreover, during the economic crisis, good social performance alleviates the negative effects of the crisis on the company (Ducassy, 2013). This scenario also occurred in Malaysia where government actively promote CSR among Malaysian companies. Thus, it is important for company to consider the social performance issue in their decision-making process, planning and strategies. Therefore, it can be concluded that company should focus on achieving good social performance as part of overall performance of organization.

Social performance is defined as the outcome of implementing corporate social responsibilities (SR)¹ activities and behaviours. It comprises principles of social responsibility, processes of social responsiveness, policies, programs, and observable outcomes as they relate to company's relationship with stakeholders (Carroll 1999; Gond & Crane 2010; Wood 1991).

According to Brammer et al. (2006) different cultures, legal system and economics conditions shape corporate social performance differently in different countries. This may contribute the different level of CSP across countries. Company from developed countries have, in general, significantly higher rating of social performance compared to firms in developing countries (Ho et al. 2011). This is because in developed countries CSP is one of business strategy to enhance financial performance whereas in Developing countries, involvement in CSR is seen as adding Furthermore CSP is not yet related with the firm and economic performance in developing countries (Aras 2010).

BACKGROUND OF CSR IN MALAYSIA

CSR in Malaysia has received a greater attention from the government and business fraternities. They believed that CSR will contribute to a growing pool of capital and the ability to attract investor. Government believed that the company involve in the CSR activities will get the benefit in the long term and also contributed to a caring society. Another reason for promoting CSR because it is seen can be a tool to achieve of vision 2020 challenge. A moral and ethical community, a fully caring culture and an economically just society are three of challenges of Vision 2020. In order achieve the first challenge of moral and ethical society, enterprises should embrace CSR best practices that help to maintain and raise ethical standard in business decision making.

Government has taken several actions to promote CSR especially for Malaysian corporation. The formation of Institut Integriti Malaysia (IIM), enhance CSR reporting by public listed companies are initiatives taken by government to show the important of CSR issue that should be considered by corporate body.

In budget statement 2007 the government has announced that all public listed company (PLC) are required to disclose CSR activities in the annual report in order to inculcate the CSR culture since CSR is a voluntary event. Bursa Malaysia has launched CSR framework in 5 September 2006 in order to provide a guideline to PLC who wish to practice CSR. The CSR framework consists of four focal areas. The areas are environmental, community, workplace and market place (Bursa Malaysia 2007). The quantity of CSR reporting in Malaysian PLC has increase since then (Bursa Malaysia 2007).

As a developing country CSR practice, some of companies in Malaysia are slower in responding to issue of CSR such preservation and proctetion of environment (Belal 2001; Nik Nazli et al. 2003; Braoco Rodgrius 2006), according to survey that conducted by Bursa Malaysia it was found 40 percent of PLCs are ranked below average or poor against international best practices in CSR. Only 4.5 percent practice good CSR (Bursa Malaysia 2007). However, based on CPA Australia survey finding on CSR Asia it is identified that the awareness levels in Malaysia is slightly higher about 16 per cent even though the practice is

¹ SR is defined as a business commitment to contribute to sustainable economic development, working with employees, their families, local community and society to improve their quality of life (World Business Council for Sustainable Development).

low. The survey also found 75 per cent respondent from Malaysia agreed that acting in social responsibility activity is good for business and helps to improve profits. Additionally, according to the New Strait Time newspaper (2010), the Malaysian government's effort to promote CSR are still not taken seriously by many company, however a few international and big corporations are the only ones involved in CSR project (Amran & Siti Nabiha 2009; Bursa Malaysia 2007). Trend analysis of data further confirms that construction companies especially company whose majority owned by 'corporate owner' in Malaysia are aware of their social responsibility but still at low level (Mustaffa and Tamoi, 2006). Many companies were still at low level category in disclosing their CSR activities (Ibrahim et al., 2013). The development of CSR in developing countries is still in progress and as compared to developed countries where CSR become company strategies to increase financial performance.

The objective of this study is to examine the level CSP among public listed company in Malaysia and to identify the nature of CSP. This paper is organized as follows. The next section presents a discussion of methodology followed by analysis and findings. Finally, conclusions and implications of the study are presented in the last section.

METHODOLOGY

Sample of this study comprises of top 262 companies that listed on main market of Bursa Malaysia. Stratified random sampling was used to select sample. Data on financial and social performance was collected from the company annual reports for the year 2010 to year 2012. This approach is consistent with previous studies by Hackston and Milnes (1996) and Aras et al. (2010). Descriptive analysis was used to analyse the CSP level of companies.

Measurement of Variables

This study uses GRI performance indicator to measure social performance variable. GRI performance indicators overcome the weakness in the measurement of social performance based on one-dimensional scheme. This is because, GRI performance indicator rate the corporate social responsibilities activities base on social disclosure of multiple dimensions from company disclosure in annual report.

This study adopts content analysis of corporate social responsibilities disclosure to obtain the rating index based on GRI social performance measurement indicator. Content analysis approach has its own weakness and bias by omission and inclusion of certain items. However, the introduction of CSR disclosures policies for Malaysian public listed companies through budget speech 2006, will limit the omission and inclusion problems. In the budget speech 2006, the government announced that all public listed companies are required to disclose CSR activities in their annual report in order to inculcate the CSR culture since CSR is a voluntary event. Moreover, Carroll (2000) views that most of social science research use surrogate measure because the actual measures are often difficult to identify. According to her, the use of surrogate measure is acceptable but the surrogate must be valid.

GRI performance indicator is argued to be valid and suitable measure for social performance based on the nature of reporting guidelines, which includes measure of social performance framework. The framework is considered comprehensive because it contains vast range measure for social and environmental performance indicator (Sutantoputra 2009). The GRI social and environmental performance indicator show that the measurement is based on actual outcome of the company CSR activities. For example, social performance indicator of labour and decent work requires companies to disclose the average training hour per employee by

category of employee. This information shows the actual initiative of companies in giving training to their staff. Another example for social performance indicator is the information regarding award received for social, ethical and environmental performance. The indicator, even though was based on disclosure, it represents the outcome of social activities. Furthermore, GRI guidelines are acknowledged for their high international recognition (Adam, 2004).

The GRI guideline framework is also based on principle of transparency and inclusiveness. All decisions regarding companies reporting should consider the principle of transparency and inclusiveness. Inclusiveness principle comprises of completeness, relevance, neutrality, comparability, sustainability, clarity and timelines. This is to ensure reliability of corporate social responsibilities reporting because the measurement of social performance is based on social disclosure. Thus, it provides reliable and completeness of social disclosure. The usage of GRI guideline framework as proxy for social performance is also supported by Manner (2010) because GRI provides guidance and standards for sustainability reporting.

The measurement of social performance in this study is divided into two ratings. The first rating is adopted from social disclosure rating system developed by Sutantoputra (2009). This rating has contributed in helping users of CSR reports to assess firm's social performance (Sutantoputra, 2009). The rating score is calculated based on two category hard disclosure and soft disclosure (Appendix C). The second rating is focused on environmental disclosure rating and is on Clarkson (2006). Environmental performance disclosure environmental is also divided into two categories, which is hard disclosure, and soft disclosure. Total score for each rating disclosure is 83 points which comprise 67 points maximum score for hard disclosure and 16 points for soft disclosure. The calculation of disclosure score are as follows:

$$\text{Rating score} = \frac{\text{Score of both rating (social and environmental)}}{\text{Total score of both rating (social and environmental)}}$$

Hard disclosure refers to verifiable disclosure which means that firms will face serious legal problem if they present untrue information regarding their social impact whereas soft disclosure refer to unverifiable disclosure. Examples of hard disclosure are disclosure of governance structure and managerial system regarding SP and labor practices and decent work whereas example of soft disclosure is vision and strategy claim regarding SP. Verifiable disclosure increases the credibility of the rating system (Sutantoputra, 2009).

ANALYSIS AND FINDINGS

Table 1 summarises the descriptive information of the variables in the study. The average of SP score is 8.99%. This low SP score may be due to the employment of international standard measure, the GRI Index, in which not many Malaysian companies comply with the requirement (refer to Table 2) The maximum rating score of CSP is only 50%, its indicate that the level of social performance in Malaysia is still low.

Table 1: Descriptive Statistics of Variables

	Mean	Median	Std. Deviation	Minimum	Maximum
CSP (%)	8.99	7.38	8.97	0.60	50

Notes: SP = Corporate Social Performance

Table 2 represents the range of social performance score of selected companies for financial year ended 2010 to financial year 2012. This SP score is for the social and environmental rating. The table shows that 80% of sample companies have SP score of 1% to 20% or less. Only 3% of overall company score more than 41 score rate. Majority of the company score in the range of 1 to 10. This indicates that majority of public listed companies have low level of social performance.

Based on Table 2, percentage of company that obtained score more than 40 increasing from year 2010 to year 2012 even though in a small percentage. The number of company that scores below 10 is also decrease from year 2010 to year 2012. It indicates an improvement of SP score in the companies.

Table 2: Social Performance Score Rate

	2010	2011	2012	TOTAL
CSP Range	No. Co %	No. Co %	No. Co %	No. Co %
1 - 10	152 (59%)	137 (53%)	138 (53%)	427 (55%)
11 - 20	62 (24%)	68 (26%)	66 (25%)	196 (25%)
21 - 30	27 (11%)	30 (12%)	26 (10%)	84 (11%)
31 - 40	13 (5%)	17 (6%)	16 (7%)	46 (6%)
41 - 83	5 (2%)	8 (3%)	14 (5%)	27 (3%)
Total	262 (100%)	262 (100%)	262 (100%)	786 (100%)

Table 3 describes the environmental performance score of companies throughout financial year 2010 to 2012. The table shows that in year 2010 89 %, in year 2011 90% and year 2012 89% of sample companies have environmental performance score of 1 to 20 or less year 2 than what is required by social performance indicator of. Only about 1% of overall company score more than 41 score rate. Majority of the company score in the range of 1 to 10. This indicates that majority of public listed company still has low level in environmental performance.

Based on Table 4 above, percentage of company that obtained score more 40 is increasing from year 2011 to year 2012 even though in a small percentage. The number of company that scores below 10 is also decrease from year 2010 to year 2011. It is shows that there are improvements of environmental practices by public listed company in Malaysia. From the observation from content analysis, its identified most of company did report environmental practices but in general. The practices more focus on energy saving and management of waste. The following discussion on the performance company based on the GRI performance indicator items.

Table 3: Environmental Performance Score Rate

	2010	2011	2012	TOTAL
CSP Range	No. Co	No. Co	No. Co	No. Co
1 - 10	203 (78%)	202 (77%)	184 (71%)	589 (75%)
11 - 20	35 (13%)	35 (13%)	42 (16%)	112 (14%)
21 - 30	13 (5%)	12 (5%)	20 (8%)	45 (6%)
31 - 40	8 (3.7%)	10 (4.7%)	11 (4%)	29 (5%)
41 - 83	1 (0.3%)	1 (0.3%)	3 (1%)	5 (1%)
Total	262 100%	262 100%	262 100%	786 100%

Table 4 represents the numbers of companies that disclose each item of in hard disclosure and soft disclosure indicator. There is not much difference of number of company that report of all indicator items from financial year 2010 to financial year 2012.

In term of governance structure and managerial system the number of companies that disclose the item is to 54, 57 and 60 for the year 2010, 2011 and 2012. This indicate that majority of the companies listed in Bursa Malaysia is not yet ready to develop governance structure and managerial systems. Malaysian companies more focus on social event that related to philanthropy, there are not yet ready, for example to form department or create management position that address the social impact.

Table 4: Disclosure Items

	HARD DISCLOSURE ITEMS	No. of company disclose in year 2012	No. of company disclose in year 2011	No. of company disclose in year 2010
A1	Governance structure and managerial systems	60	54	57
A2	Credibility	207	225	189
A3	Social performance indicators - Labour practices and decent work	423	420	318
	Social performance indicators - Human right	60	60	54
	Social performance indicators - Society	24	30	0
	Social performance indicators - Product responsibility	273	255	309
A4	Social spending	69	78	30
	SOFT DISCLOSURE ITEMS			
A5	<i>Vision and strategy claims</i>	780	780	774
A6	Social profile	207	162	105
A7	<i>Social initiatives</i>	786	786	787

In term of credibility disclosure item, the number of company disclose is this item is better compared to governance structure company for the year 2010 (189) to year 2012 (207). This is contributed by item firm acknowledge use GRI sustainability reporting guidance or Bursa Malaysia SR disclosure requirement. Even though small number of companies the sample aware about Global Initiative Reporting (GRI) but there are higher number of company adopt bursa Malaysia social responsibility requirement. Zero (0) score for item involve stakeholder involvement in the social disclosure process, external labour award and participation in voluntary social initiatives endorsed by ILO or department of employment and industrial relations in the country. This show the nature of CSR disclosure is not yet covered the requirement of GRI.

Social performance indicator items cover the issue of labour and decent work, human right, society and product responsibility. 423 (year 2012), 420 (year 2011) and 318 (year 2010) of the companies have discloses the on issue of labor and decent work. The focus of social practices is a policy regarding health and safety policy for their labour. This indicate the awareness company social responsible toward their staff regarding and health and safety of working environment. Staff training and education is another items that have the higher number of disclosure.

Another area that have high number of company disclose the information are product responsibility, there are 273 company (year 2012), 255 companies (year 2011) out of 780 companies of total sample. Most company report their policy protecting on customer health and safety during the use of firms' product show. This is on line with the legitimacy theory practices, companies will portray the policy that follow the norm that expected by the society. This is to ensure the company survival.

Under the human right, the number of company disclose the item is on the range of 54 to 60 companies (from year 2010 to year 2012). Among items under cover human are policies preventing all form of discrimination and child labour. Only about 1% of company reports the policy on child labour. This scenario occurred might be because all of Malaysian company did not hire children as a labour.

In term of society, they are lower number of company disclose in term of policies and mechanism for registration employees in addressing bribery and corruption. None of the companies in the sample disclose regarding social performance indicator on political contribution such as policies, lobbying and contribution. None of the companies in the sample have spent money on fines related to social litigation or issues. This may due nature of consumer behavior in Malaysia, where the consumer association is not actively strong to bring any social issue to the court.

Soft disclosure items cover issue of vision and strategy claim, social profile and social initiative. More than 50% companies in the sample have CEO statement on social performance in the letter to the stakeholder. These show the awareness of companies' management toward CSR issue. Nearly 100% companies disclose a statement of corporate policy, values and principles codes of conduct. This statement is important for companies to disclose because it can reflect the image to be good corporate citizen. Moreover, for the same reason to be good corporate citizen, all of public listed companies in the sample disclose the last item of soft disclosure (donation to society or related party). Table above describe the items under GRI measurement of CSP that have been disclose by the companies in sample. Most the companies are more focus on the contribution to society that covers under social initiatives.

As conclusion there are highest number of company disclose item under labour practices and decent. This measurement involves the information regarding policies on occupational accident and diseases and average hour of training provided to the staff. The measurement is highly complying by Malaysian public listed company. Malaysian company social activities also focus on contribution to society/ all company in sample engage in community activities. This indicates that Malaysian company understanding of social responsibility area that contribute to social performance is still is in limited area. This study is not focus on social disclosure but the disclosure is to use rate social outcome that represent the level of company social performance.

CONCLUSION AND RESEARCH IMPLICATION

This study aims to analyse the level of corporate social performance in Malaysia. Even though majority of companies in Malaysia is still score at low rate the level of social performance but there is an improvement in the performance from year 201- to year 2013. The research finding also identifies that, most of the company focus on community activities in their social responsibilities event. The scope of CSR activities is not yet comprehensive also required under GRI guideline. However, the CSP level is improving rom year 2010 to year 2012. This study hopes open understanding on current CSP in Malaysia.

However, this study inherits several limitations. First, the rating process is based on researcher individual judgment, therefore its might open to different interpretation if the rates were to be calculated by different individuals. Secondly, this study only uses the annual report to gather information regarding companies' social activities. This is because the annual reports are valid and they serve as reliable sources of document to obtain information regarding the company. Since social responsibility is a form of voluntary disclosure this may be open to undisclosed certain social activities of the company. Nowadays, sustainability reporting is another comprehensive report that contains information regarding social and environmental activities but in Malaysia, the number of companies publishing this report is still scarce.

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