

CSR Reporting by Government Linked Companies and their Corporate Attributes

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Abstract: This study provides evidence on the extent of corporate social responsibility (CSR) reporting of government-linked companies (GLCs) based on the requirements of the Silver Book and its relationship with corporate attributes. Under the Malaysian government's transformation plan for their GLCs, the Silver Book outlines the best practice regulatory framework on how GLCs can contribute in CSR and it also provides link to Global Reporting Initiatives (GRI). This study examines corporate reports of 33 GLCs for 2005 to 2007 using content analysis to determine the extent of disclosure. The findings indicate that there was gradual improvement in the extent of CSR disclosure particularly in 2007 after the Silver Book was introduced though the average level of disclosure is still moderate. It is also found that there is significant relationship between extent of CSR disclosure and corporate size, industry type and performance. This study contributes to CSR literature particularly in the context of government owned companies where government plays a significant role in assisting them achieving value through corporate social responsibility.

Key words CSR reporting, Malaysia Government-linked Companies (GLCs), Silver Book

INTRODUCTION

Government-linked companies (GLCs) are defined as those having primary commercial objective and in which the Government has a direct controlling stake. GLCs, in general, make up the backbone of the country's economy. In Malaysia, as in other countries, GLCs with a mixture of social and commercial objectives play a major role in dictating the path in which the economy grows (Mariati & Kamarulzaman, 2005). They serve a major and central role in the operation of every commercial and social concern through the provision of important services such as transportation, energy, telecommunications and financial services. These same vital services also contributed significantly towards improving the quality of life for ordinary Malaysians. GLC may also be subjected to a greater requirement to comply with the government policies, including additional social obligations. Due to the importance of GLCs, the government has been moving towards the creation of competitive, firm and sustainable corporations guided by the best management and corporate governance practices. Consequently, the GLC Transformation Program was launched in May 2004 to be part of an on-going effort by the government to drive the development and growth of Malaysian economy as well as monitoring the GLCs operations. In July 2005, the government launched 10 initiatives to enhance the performance of GLCs. Initiative five in the program is to embrace the corporate social responsibility (CSR) through the introduction of Silver Book that calls for GLCs to achieve value through contribution to society. The Silver Book serves as a set of guidelines on how GLCs can contribute to society in a responsible manner and create a positive impact, not for their very own business, but also to serve the society. The Silver Book defines a contribution to society as an activity undertaken by a business where the primary objective is to benefit the society in which it operates, or to benefit groups of individuals or communities within that society. To portray the initiatives undertaken to society well-being, GLCs should channel the information by disclosing their contribution to society through comprehensive reporting that incorporates customized messages for each key stakeholder. In this regard, Silver Book discusses positive reporting and communication that act as the tools to effectively manage and ensure optimal results from the contributions to society. In fact, the Prime Minister highlighted in his 2008 Budget Speech the requirement for companies to disclose their CSR activities to inculcate a socially responsible culture. Effective communicating and reporting will help Malaysian companies, including the GLCs, to gain public recognition, help attract the interest of socially responsible investment funds and more effectively manage different stakeholder expectations other than deliver financial and operational results as it is obliged to do so.

With the growing interest in corporate social responsibility, organizations since the early 1990s have been seeking to develop practices and policies that are more ecological, sustainable and socially responsible (Egri & Ralston, 2008). Numerous frameworks have been developed for voluntary CSR disclosures as to how companies should manage and report CSR issues (Graafland *et al.*, 2004; O'Connor & Spangenberg, 2007; Gil-Estallo *et al.*, 2008; Singh *et al.*, 2008). However, since there is no legislation within this area, content and focus in the sustainability reports differ (Boesso & Kumar, 2007). Thus, every company in different countries has taken different efforts in pursuit of social contribution.

As a result, many research has attempted to explain how and why the reporting differs between companies (for example, Tilt, 1994; Ahmed & Courtis, 1999; Haron *et al.*, 2004; Ratanajongkol *et al.*, 2006). Adam (2002) identified three types of explanatory factors that induce reporting the social contribution. They are firstly, corporate characteristics, which include factors such as size, industry and economy performance. Secondly is the disclosure factors discussed in general, contextual factors with variables such as country of origin, social and political context. The last type is on the influence of internal context which Adam (2002) relates to extensiveness of reporting and views and attitudes of key corporate players to aspects of reporting.

There has been little prior research into the internal context influence of CSR reporting (Adam, 2002). By referring to the Malaysian GLCs extensiveness of Silver Book disclosure as the influence of internal context, this study aims to contribute to the literature. For GLCs in particular, CSR is an important area given GLCs tendency to provide socially- oriented services other than its own commercial profitable objectives. GLCs Transformation Manual has supported that it is especially true in the context of Malaysian situation, due to the service-orientation of many GLCs, as well as the Government being the default provider of such public goods through its GLCs. In addition, CSR reporting in Malaysia was made compulsory in Budget 2006, thus, requiring all public listed companies to report on their environmental and social responsibility performance. As such, this study aims to explore and analyze the extent of CSR disclosure in the annual reports of 33 Malaysian GLCs following the Silver Book guidelines. Specifically, the objectives of this study is to analyze the extent of CSR disclosure before (2005 and 2006) and after (2007) the introduction of the Silver Book and its relationship to corporate size, industry type and performance.

Silver Book and Malaysian GLCs:

A large number of GLCs have yet to institutionalize comprehensively and structure programs to manage proactively their social contributions (Silver Book, 2006). Therefore the Silver Book provides a strategic framework for GLCs to establish effective contributions and mitigate the cost of any social obligations or even transform these obligations into positive social obligations. There are six identified building blocks to develop socially responsible program to create benefits to society. They are:

1. Establishing a comprehensive policy on contributions to society,
2. Setting a clear financial spend target on the overall portfolio of contributions to society,
3. Enhancing contributions to society on a regular basis,
4. Institutionalizing a process to handle new requests,
5. Communicating the contributions to society to all stakeholders,
6. Adopting a governance and organization structure specific to managing the contributions.

Globally, leading companies are embracing corporate social responsibility to respond to various stakeholders' pressures and to gain competitive advantage such as to increase investor interest and grant access to global market from undertaking such responsibilities. However, social contributions are generally voluntary, although some may be undertaken by the business to specifically respond to or to fulfill the demands of stakeholders.

Indeed, the Silver Book is valuable in the way that it helps to transform the GLCs into world-class corporations and set a clear expectation on how GLCs will contribute to society. This is particularly crucial for GLCs as they need to align with the expectations of the government, private investors, employees and consumers around the nature and extent of their business operation as well as their contributions to society.

The Silver Book is meant for all GLCs and was developed using substantial research and inputs from the GLCs, Government Ministries, relevant regulators as well as representatives from civil society or Non-Governmental Organizations (NGO's). It also serves as an aspiration to the government that GLCs will lead other corporate Malaysia in demonstrating how businesses should contribute in a socially responsible, sustainable and meaningful way. Therefore, the GLCs are expected to formulate a comprehensive policy on their social responsibility that goes beyond corporate philanthropy and being able to meet the aspiration of the Ninth Malaysia Plan.

This study is focused on the fifth building block to develop a socially responsible program, identified as communicating the contributions to society to all stakeholders. By implementing a proper reporting program to publicize the CSR activities, GLCs will gain public acknowledgement and recognition, attract the interest of socially responsible investment funds, and manage any concerns or expectations of the key stakeholder. Hence, Silver Book encourages GLCs to consider adopting the prescribed simplified reporting guidelines.

To respond to the needs of users as well as to improve current reporting activities, the Silver Book identifies the most significant initiatives that aim to improve the disclosure practices and informs readers of emerging international trend towards CSR practices. The Silver Book outlines seven categories of social reporting. The last reporting category, Target and Achievement, provides link to GRI whereby the GRI is referred to for additional performance indicators that measures performance of the reporting organization that are divided into

economic, environmental, and social performance indicators. This guideline provides links to the most internationally accepted standard, the GRI reporting guidelines for reporting contribution to society.

The GRI, that received a widespread support as a potential tool to provide the transparency and accountability is increasingly being demanded of multinational companies by their stakeholders at governmental and institutional levels (Brown, 2005). It is a fact now that GRI is the most frequently used framework by companies for the description and measurement of their corporate social responsibility initiatives (refer Panayiotou *et al.*, 2008; Castka *et al.*, 2004; Ellmen, 2006). This somehow suggests that GRI has much to offer to stakeholder community of which for many decades have been starved of quality, measurable and accountable corporate social information presented in an accessible and understandable format (Hartman & Morland, 2007).

Bursa Malaysia has its own CSR Framework that was launched in September 2006. The framework is to guide public listed companies (PLCs) in implementing and reporting their CSR agenda that looks at four main focal areas for CSR practice, namely the Environment, the Workplace, the Community and the Marketplace, with no order of priority. While much newer, the government has initiated a Transformation Program for GLCs to bolster the contribution to stakeholder benefits through the implementation of the Silver Book. Bursa Malaysia plays a key role in enforcing government policies on CSR disclosure and corporate governance.

This is in line with Budget 2006 speech by Prime Minister (PM) that required all PLCs to disclose their CSR activities. The government also made it a requirement for companies to report on their CSR activities when tendering for government contracts under Budget 2006. The directive from the PM is meant to encourage Malaysian PLCs to become more engaged and involved in social responsible activities within their business operation.

Acknowledging that successful CSR program can deliver real value to business in the form of reputation, customer and employee loyalty and even investment opportunities, the CSR drive in Malaysia has geared up and is increasing rapidly. On what is called as a sustainability agenda, on November 16, 2006 CSR Malaysia was formed which was later renamed the Institute of Corporate Responsibility Malaysia (ICRM). ICRM functions as a network of corporate institutions committed to advancing responsible business strategies and practices that will incorporate triple bottom line impact, which were identified as people, environment and economics.

CSR practice in Malaysia:

Literatures suggest that one of the earliest studies on the development of CSR in Malaysia was carried out by Teoh and Thong (1984), (see for example, Nik Ahmad *et al.*, 2003; Haron *et al.*, 2004; Zulkifli & Amran, 2006; Amran & Devi, 2008). Teoh and Thong (1984) surveyed a combination of one hundred foreign and locally owned companies in Malaysia and conduct an interview focused on three related issues; the concept of CSR, the nature and extent of corporate involvement in such activities and lastly, the corporate social reporting. Results of the study were disappointing, where only 29 percent of companies in the sample reported on social performance in their annual report, while human resource related activities topped the list of their social involvement. This reveals the lack of reporting has kept most of the public ignorant of the contributions made. Further, foreign-owned companies made more CSR disclosures than Malaysian companies' did (Teoh & Thong, 1984).

Later studies then focused on the level of reporting, the themes, and the type of news disclosed. As late as the closing years of the twentieth century, CSR practices of Malaysian companies were still very low (Shireenjit & Ishak, 1998). The situation however, started to improve in early 2000 (Thompson & Zakaria, 2004). Raslan and Ho also provide the same view that corporate responsibility in Malaysia has developed since the code of corporate governance was introduced in 2000 (The Edge, November 12, 2007). This is consistent with ACCA (2004) which highlighted that 43 percent of the survey respondents report on their social performance while 26 percent intend to report in the future. This positive view towards sustainability reporting promises a bright future of CSR disclosure practices in Malaysia.

The drivers of CSR in the Malaysian context are also increasingly investigated. Among others, Haniffa and Cooke (2002) explored the influence of culture and corporate governance structure on CSR. Mohd, *et al.* (2001) and Thompson & Zakaria (2004) investigated CSR in relation to firm characteristics, and found that such characteristics as size, industry and profitability were significant. The study highlighted the motivation for their disclosures as being linked to government influence, a desire to follow latest trends and a commitment to Vision 2020. Yusoff *et al.* (2007), found that companies with ISO 14000 certification tend to make some form of disclosure. Given the unique socio-economic and political nature of the Malaysian environment, the most recent study conducted by Amran and Devi (2008) extends the literature to examine the influence of government and foreign affiliations. They found that the government of Malaysia is very serious in inculcating the CSR culture into the companies that cooperate closely with the government as evidenced in 2008 Budget proposal that requires public listed companies to disclose their employment composition by race and gender. Even if the impact of foreign affiliation variables is not evident, institutionalization of the government's aspirations and commitment to CSR is perhaps the most appropriate description for Malaysian CSR practice.

Hence, this study sampled Malaysian GLCs to examine their CSR disclosure and its association with their size (measured by market capitalization), performance (measured by Tobin's Q) and industry type. Many previous studies on CSR disclosure and voluntary disclosure have shown significant relationship of these variables with the extent of disclosures (see for example Celik *et al* (2006), Van der Laan *et al* (2005), Zain & Jangu (2007), Owusu-Ansah (1998), Boesso and Kumar (2007), Aljifri (2008), Klassen & McLaughlin (1996), Ullman (1998), Jaggi & Low (2000). Based on the previous literatures, the following null hypotheses were developed:

H1o :There is no significant relationship between the Silver Book CSR disclosure and size of GLC

H2o :There is no significant relationship between the Silver Book CSR disclosure and type of industry of GLC

H3o :There is no significant relationship between the Silver Book CSR disclosure and performance of GLC

MATERIALS AND METHODS

Sampling Method:

Initially, there were 57, 48 and 39 GLCs listed in Bursa Malaysia as at 2005, 2006 and 2007 respectively (www.pcg.com.my). These periods were chosen because the Silver Book was only launched in the last quarter of 2006 and GLCs are expected to extensively comply with the Silver Book in 2007. The sample therefore would allow the results to be compared before and after the implementation of the Silver Book. To conduct this longitudinal study, the sample selected must be consistent, that is they must be listed as GLCs and be on the Bursa Malaysia Main Board for all the three periods chosen. During the reviewing process, it was discovered that 33 GLCs were listed in Bursa Malaysia throughout 2005-2007. Thus, the final sample of 33 GLCs were chosen in this study. This research uses longitudinal content analysis to show the extent of Silver Book disclosure of Malaysian GLCs.

This study considers the information disclosed in annual reports including separate stand-alone social report of the GLCs if they issue such reports, all of which were downloaded from Bursa Malaysia and company websites. To facilitate the content analysis, a disclosure index was developed that lists the CSR disclosure items as outlined by the Silver Book and the GRI-3 performance indicator.

CSR Disclosure Index:

In developing the disclosure index, a preliminary test of reviewing the items of CSR disclosure was conducted on UMW Holding Berhad Social Report 2007 (also a Malaysian GLC) as a benchmark. Two reasons led to the decision to use this company's report in pre-testing. Firstly, it is because UMW was awarded the prestigious Global Reporting Initiative (GRI) Application Level A (+) Certification for its CSR reporting and be the first Malaysian corporation to have received an A (+) rating for complying with GRI reporting guidelines. Secondly, the company made reference to the Silver Book and the reporting framework outlined by Bursa Malaysia in their Social Report 2007.

The reporting details on core disclosure items in UMW Social Report were used to list out the GRI disclosure items applicable to Malaysian GLCs. From the preliminary test, it was discovered that only 34 disclosure items are appropriate to be reported under Target and Achievement disclosure category. This represents the appropriate performance indicators as disclosure items to be reported by the rest of Malaysian GLCs under study. The first six reporting categories, prescribed in the Silver Book contained 20 disclosure items. Thus, a total of 54 disclosure items, are successfully identified and prescribed to be included in the CSR disclosure index. Refer to Appendix 1, the score sheet listing the CSR items of information.

To analyze the extent of disclosure, 54 identified disclosure items in the score sheet were captured from the GLCs corporate report. Since there are 54 total items developed in the score sheet, the GLCs possible range score of CSR disclosure will be from 0 to 54. The disclosure score was computed for each of the three years 2005-2007. Total disclosure score for each GLC for each year will be calculated as follows:

$$a = \sum b$$

Where,

a = disclosure score by each GLC ($0 \leq a \leq 54$)

b = individual items disclosed by each GLC under each category

RESULTS AND DISCUSSION

Descriptive Analysis:

Table I summarizes the descriptive results for disclosure scores, market capitalization and Tobin's Q from 2005 to 2007. On average, GLCs disclosed 24 items (44 percent) out of 54 proposed reporting items in the Silver Book. This implies a low implementation level of the Silver Book guidelines by GLCs when reporting their CSR activities. Overall, GLCs have reported at least 12 specific items with a maximum of 54 items on CSR disclosure throughout the years of study. With a standard deviation of 7.009, the disclosure score varies widely between the GLCs. Market capitalization also varies widely with a standard deviation of RM11.738 million. Size of GLCs is also categorized as small, medium and large based on the range of market capitalization. 44 percent of GLCs are medium sized, 38 percent small and 18 percent being large GLCs.

Table I: Descriptive Statistics on GLCs Overall Disclosure Score

Item	n	Minimum	Maximum	Mean	Std. Deviation
Disclosure scores by GLC (No. of items disclosed)	54	12	54	24.43	7.009
Market Capitalization (RM million)	99	88.96	46670	6659	11738
Tobin's Q	99	0.054	2.353	0.813	0.475

The 99 GLCs in the three years under study are also categorized in six industrial types. They are trading (99%), finance (24%), industrial products (12%), construction (9%), consumer products (6%) and others (9%). Despite of the low level of reported items as discussed above, results also show that GLCs have actually improved their CSR reporting, particularly so in 2007 after the introduction of the Silver Book.

Inferential Analysis of Relationship between CSR Disclosure And Size, Performance And Type Of Industry:

Correlation analysis was performed to examine whether a significant relationship exists between Silver Book disclosure and size and performance of the GLCs. Kolmogorov-Smirnov test showed that the data was not normally distributed, and thus a non-parametric correlation test was performed using Spearman's Rho. Size (market capitalization) of GLCs was categorized into three groups of large, medium and small. The correlation coefficient of 0.336 (p-value = 0.001) reveals that a significant positive relationship exists between Silver Book disclosure and size of GLCs. Correlation analysis on GLCs' performance and Silver Book disclosure resulted in correlation value of 0.244 with a significance p-value of 0.015 (p<0.05). Hence, there is a significant relationship between Silver Book disclosure and performance of GLCs.

A Kruskal Wallis test was performed to examine whether there is any difference in Silver Book disclosure among different types of industry the GLCs belong to. Sample companies were categorized into trading/services, finance, industrial product, construction, consumer product, and others. The result of a chi square of 17.842 with a significant level of 0.003 (p< 0.005) indicates that there is a significant difference in the level of Silver Book disclosure across different types of industry of the GLCs.

The results of the above tests conclude that all the null hypotheses on the relationship between Silver Book CSR disclosure and size, performance and industry could not be accepted.

Conclusion:

This paper examines the extent and trend of CSR disclosure of Malaysian GLCs for the years before and after the implementation of the Silver Book. Only 44 percent of disclosure items prescribed in the Silver Book reporting guideline have been successfully reported for the whole period of the study. The result reveals that the extent of Silver Book CSR disclosure is low among the 33 GLCs. However, the increasing trend of disclosure suggests that GLCs are starting to recognize the Silver Book as the guideline in reporting their contribution to society. In addition, the low level of reporting of items proposed in the GRI by GLCs suggests that adherence to this international wide accepted reporting guideline is still at the infancy stage.

The Malaysian government codified the CSR reporting guidelines in the Silver Book which was developed and distributed by Putrajaya Committee on GLC High Performance (PCG) only in the second quarter of 2006. This study found there is an upward trend of Silver Book reporting among the GLCs right after the introduction of the Silver Book. This trend may be in response to the promotions, efforts and directions by the Malaysian government to improve the regulatory framework and to ensure sufficient provisions of social reporting to all GLCs. The study also supports the contention made by some researchers in social accounting that legislation, or at least standards, are needed to ensure that companies are disclosing information about their activities that affect society (Carroll, 1999). In this case, the Silver Book guidelines served as the 'standard' for GLCs to report their social responsibility and to be seen as being good corporate citizens. It is also concluded that the extent of CSR disclosure is affected by the size of the GLCs, their type of industry and their performance.

As a final note, it is hoped that this study will induce other researchers to explore other elements embedded in the Silver Book so that the full implementation of the guideline, taking into consideration other elements of an effective contribution to society could be better explained.

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Appendix 1: Score Sheet of Silver Book Reporting Guideline

Sample of Proposed Corporate Responsibility Reporting content by Silver Book	Disclosure (1), Non-Disclosure (0)			
	Co.1	Co.2	Co.3	Co.4
1. Vision and Strategy				
<i>Statement from the CEO stating company commitment to society contribution:</i>				
Core contribution themes supported by the company				
Statement of commitment which may include specifying an overall spend value or other high level targets to be achieved with the contributions				
Explicit criteria of contributions that the company not support				
2. Organizational Profile				
<i>Overview of the company operations, products and services:</i>				
Operational structure of the company				
Major products and services				
Markets and segments served				
Description of major division/subsidiaries				
Size, structure and spread of activities:				
• Number of employees				
• Volume and revenue from products/ services offered				
3. Scope				
<i>Description of the boundaries of the report:</i>				

Time period of report				
Organizational scope				
Range of contributions to society undertaken (economy, environmental and social)				
4. Governance				
<i>Governance structure in managing the company contributions to society:</i>				
Board- level processes and committees				
Organizational structure and key executives responsible for oversight, implementation and audit of the contribution				
KPIs of employees involve in contribution to society				
5. Overarching Policies and Management System				
Endorsement or subscription to any externally developed principles on contribution to society				
Certification status pertaining to economic, environmental and social management systems				
6. Stakeholder Engagement				
Establishment of process to define the stakeholder and determine key stakeholder to actively engage with				
Stakeholder consultation and dialogue processes including method of consultations				
Type of information generated by stakeholder consultations and explanation of how the resulting information has been used				
7. Targets and Achievement				
<i>Detailed reporting on company's KPIs for contribution to society to include economic, environment and social performance indicators:</i>				
1. Economic				
<i>Economic Performance</i>				
Economic value generated and distributed				
Risks and opportunities due to climate change				
Coverage of the defined benefit plan obligations				
Significant financial assistance from government				
<i>Market Presence</i>				
Spending on locally-based suppliers				
Local hiring policies				
<i>Indirect Economic Impacts</i>				
Investments and services primarily for public benefit				
2. Social				
<i>1. Social Performance: Labour Practices & Decent Work</i>				
<i>Employment</i>				
Employment type, employment contract, and region				
Employee turnover by age group, gender, and region				
<i>Labour/Management Relations</i>				
Collective bargaining agreements				
Notice period for operational change				
<i>Occupational Safety & Health (OSH)</i>				
OSH injury and accident statistics				
Awareness training for serious diseases				
<i>Training and Education</i>				
Average hours of training per year per employee				
Skills management and lifelong learning				
<i>Diversity and Equal Opportunity</i>				
Indicators of employee and Board diversity				
Basic salary men vs. women				
<i>2. Social Performance: Human Rights</i>				
<i>Investment and Procurement Practices</i>				
Agreements with human rights clauses or screening				
Human rights screening of suppliers and contractors				
<i>Non-Discrimination</i>				
Incidents of discrimination and actions taken				
<i>Freedom of Association and Collective Bargaining</i>				
Risks to freedom of association and collective bargaining				
<i>Child Labour</i>				
Risk of incidents of child labour				
<i>3. Social Performance: Society</i>				
<i>Community</i>				
Impacts of operations on communities				
<i>Corruption</i>				
Risks related to corruption				
Actions taken in response to incidents of corruption				
<i>Public Policy</i>				
Public policy development and lobbying				
<i>4. Social Performance: Product Responsibility</i>				
Type of product and service information				
3. Environmental				
<i>Materials</i>				
Total materials use				
<i>Energy</i>				

Direct/ indirect energy consumption by primary source				
Water				
Total water withdrawal by source.				
Biodiversity				
Impact on biodiversity				
Emissions, Effluents, and Waste				
Direct and indirect greenhouse gas emissions				
Products and Services				
Environmental impacts of products and services				
Compliance				
Penalties for environmental non-compliance				
Total disclosures by each GLCs				