

**MALAYSIAN DOMESTIC FIRMS' CONTRIBUTION TOWARDS
COMMUNITY BASED CSR**

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**Research report submitted in partial fulfillment of the requirements for the degree
of Master of Business Administration (Sustainable Development)
2012**

DEDICATION

.....to my beloved parents, family members and friends

ACKNOWLEDGEMENT

“You simply will not be the same person two months from now after consciously giving thanks each day for the abundance that exists in your life. And you will have set in motion an ancient spiritual law: the more you have and are grateful for, the more will be given you.”

-Sarah Ban Breathnach-

There are many individuals whom I would like to thank for their support and guidance that made it possible for me to successfully complete this MBA project paper. First of all, my sincere gratitude goes to my beloved family, to my beloved parents for giving me life in the first place and for unconditional support and encouragement to pursue my studies in MBA Sustainable Development.

The special thank goes to my both helpful supervisor, Dr Salfarina Abdul Gapor and Professor Dr. Hasnah Haron. The supervision and support that they gave truly help the progression and smoothness of my project paper. The co-operation is much indeed appreciated and I am so honored to have both of you as my supervisors.

Lastly, I would like to express my gratitude to all my colleagues especially those who work together to complete the final project.

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ABSTRACT

This study examines the level of community based CSR disclosure among Malaysian domestic firms. Content analysis technique was used for this purpose, by way of using simple index scoring to measure the CSR index according to the sub-themes in the community engagement dimension. Studies on CSR disclosure particularly that linked CSR with community involvement is still lacking in developing countries especially Malaysia. Not much research has been to date to examine specifically the extent to which Malaysian domestic firms carry out their CSR activities in order to elevate the living conditions of the community. Hypotheses are testing using regression analysis on 65 domestic firms listed on Main Board of Bursa Malaysia across a representative cross-sectional of the industrial sectors. Annual reports for the year 2010 were studied. The results show that only firm size and profitability have significant difference with the extent of the disclosure while leverage and industry type were found to have negative relationship. The high profile industry type was found to have higher amount of community based CSR disclosure. The finding achieved a point to conclude that the CSR practices by the current domestic firms in Malaysia are at the nascent stage. The finding also supported by Salleh (2009) which found that the level of social consciousness by Malaysian firms to be limited and at the infancy stage. Although it is still low in numbers of the firms to participate in the community CSR disclosure but it appear to be improving and growing. Finally, this paper will discuss its limitations, implications and some suggestions for future research.

ABSTRAK

Kajian ini mengkaji tentang tahap pendedahan amalan-amalan berkaitan tanggungjawab sosial korporat di kalangan firma tempatan di Malaysia. Teknik analisis kandungan telah digunakan iaitu dengan mengaplikasikan pemarkahan indeks untuk tujuan mengukur tahap indeks tanggungjawab sosial terutamanya di dalam penglibatan masyarakat setempat. Kajian mengenai pendedahan aktiviti-aktiviti sosial di Malaysia masih kurang dan tidak banyak penyelidikan setakat ini yang meneliti secara khusus sejauh mana firma tempatan menjalankan tanggungjawab sosial mereka dalam usaha meningkatkan taraf hidup komuniti setempat. Oleh itu, kajian ini menganalisa sebanyak 65 buah firma tempatan yang tersenarai di dalam Bursa Malaysia dan laporan tahunan pada tahun 2010 telah dikaji. Hasil kajian menunjukkan bahawa saiz firma dan keuntungan mempunyai hubungan yang positif dengan jumlah pendedahan dalam laporan social firma-firma manakala nisbah hutang dan jenis-jenis industri menunjukkan hubungan yang negatif. Kajian mendapati bahawa di Malaysia, amalan-amalan firma dalam tanggungjawab sosial korporat masih di peringkat yang baru. Kajian daripada Salleh (2009) juga mendapati hasil yang sama iaitu tahap kesedaran social di kalangan firma-firma tempatan masih terhad dan di peringkat yang baru muncul berbanding negara-negara yang maju. Akhir sekali, kertas kerja ini membincangkan had, implikasi dan beberapa cadangan untuk kajian pada masa hadapan.

CHAPTER 1 INTRODUCTION

1.1 Introduction

This chapter will emphasize on the research outline of the study. It starts with the background of the study and the problem statement followed by research objectives and the research question. Significance of the study will be highlighted at the end of this chapter.

1.2 Background

Corporate social responsibility (CSR) can be defined as a concept that lays together concern on how decisions today might have on the environmental impacts, socio cultural and socio economic aspects, as proposed by the Regulations of ISO 26000 on Social Responsibility that requires companies to take social consciousness into their account (Young Park & Wook Kim, 2011). CSR is used as a compass for the sustainability in future as it covered a wide spectrum of issues covering from ethics and corporate governance to the environmental consideration and social consciousness. CSR is not a new phenomenon for the business practices in order to respect the sensitivity of the society.

Since independence in 1950s, Malaysia has been recognized as one of the countries that contribute to the improvement of living conditions of the disadvantaged communities. The multitude of social issues arise because of rapid urban development and increasing population in Malaysia ranging from poverty issues, health, unemployed graduates, lack of education for the underprivileged children and lack of infrastructure in the rural area. As such, alleviating poverty programs, health treatment, education development and capacity building programs become a

part of national agenda in Malaysia to elevate the quality standard of livings of this disabled communities. The goal to improve the quality standard of the human being by the Government is documented in various government development policies such as New Economic Policy (1971-1990), National Development Policy (1991-2000), National Vision Policy (2001-2010) and National Transformation Plan (2010-2015).

Millennium Development Goals have been set for the Government and the United Nations to improve standards of living and alleviate poverty in Malaysia. However, social problem is not only attracting the concerned of Malaysian Government in the provision of all public goods and basic amenities to society but it is also one of the CSR initiatives and major objectives of every multinational companies (MNCs), non-governmental organizations (NGOs), government-linked companies (GLCs) and local companies in Malaysia to contribute to improvement of the society. According to Siwar & Md Harizan (2008) on their previous study implemented in 2004, there were only 43 % of companies that had successfully reported to some extent in the social performance while about 26 % were pending to report in future while most of the commitment towards the Community CSR was expressed in term of philanthropy. Philanthropy that ranges from charity, donation and sponsorship is amongst most favorable and popular CSR contributions by the companies to help the needy by improving their living conditions. Generally, by doing philanthropic activities do not mean that the companies only can rely on philanthropic alone to elevate quality of life of communities but they can find many other intelligent way of doing business in relation to tackle social issues. CSR is not just a philanthropic but it is about how a company doing business with ethics and towards what extent they contribute to poor and marginalized people.

Although there are various efforts from various parties to improve the livelihood of the community, there are still many households that do not have access to their basic amenities, needs and suffer from conditions that are associated with poverty and facing low living standards, particularly in developing country like Malaysia. It is one of the unchallenged successes that are highly been criticized and portrayed by the Government to show how far we had achieved since 1957.

Nevertheless, a social problem in Malaysia is still cliché in a global phenomenon that should be solved quickly. Thus, corporations are having greatest pressure to exercise business in a more socially responsible manner and respond accordingly towards the social issue.

1.3 Problem Statement

Over the past century, companies were paying little concern on CSR issues and today CSR had emerged not just as tool to sell their businesses but also as a part of their vision statement. CSR is no longer became a peripheral to the business strategies as more companies in Malaysia are engaged in CSR. Bursa Malaysia, formerly known as Kuala Lumpur Stock Exchange (KLSE) has provided a framework for all the Public Listed Companies (PLCs) in Malaysia as a guideline for them to report their CSR activities.

Most of the CSR activities have been exercised and practiced by the MNCs and local companies in Malaysia but lagging behind are the Small Medium Enterprises (SMEs). MNCs are more actively in carrying CSR activities because they face immense pressure from various stakeholders around the world to be socially responsible in their operation. The levels of social consciousness to improve living conditions of community by the MNCs are also high.

It is obvious to see a growing numbers of our local companies that have engaged and are participating in CSR practices but changes are occurring in a slow form compared MNCs. According to Siwar & Md Harizan (2008), organization hardly disclose a lot of the information on its societal and environmental activities due to the lack of public awareness, lack of pressure from the interest groups in Malaysia and laws and regulations implemented in Malaysia are not in the rigid state. Therefore, the previous study found that local companies remain firm as CSR performer. Not much research has been to date to examine specifically the level to which domestic firms in Malaysia carry out their CSR activities in order to elevate the living conditions of the community. Published work in this area could is scarce since not many studies had been documented in Malaysia or even in the developing world to examine the link between CSR and social issue. Most of the studies on CSR disclosure practices heavily focused on developed countries rather than developing countries (Bayoud et al., 2012).

Even though the CSR initiatives by the local companies in Malaysia emerged quite well, there is still a need to examine the rationale behind their CSR activities and how well our current domestic firms contributes their CSR initiative to help the poor and marginalized people. This is because, in spite of all the efforts being made by the local companies, the social issues still remain questionable and getting worse. In order to alleviate social issue, it is not by means of philanthropy alone but it requires multipurpose of approaches such as provide job opportunities for the needy, active participation by the business sectors and support the micro level projects for the community to improve their standard quality of life. Such sponsorship, donation and charitable activities are more prone to be monetary initiatives rather than non-monetary initiatives.

1.4 Research Objectives

Therefore, this research attempts to accomplish three main objectives as follows:

- (1) To examine the level of community based CSR disclosure practices by domestic firms in Malaysia;
- (2) To examine the relationship between the firm attributes such as firm size, leverage, and profitability with the extent of CSR disclosure on the community engagement ; and
- (3) To examine whether types of industries do influence the level of community based CSR disclosure.

1.5 Research Questions

To obtain the main goals above, the study will answer several questions below:

- (1) Are current Malaysian domestic firms disclose any aspect of community based CSR disclosure in the annual report ;
- (2) What are the factors influencing community based CSR disclosure by Malaysian domestic firms.

1.6 Significance of Study

This study has significant contributions to the regulators, business sectors, NGO, and communities by providing them the useful information about the current performance by the domestic firms in addressing the social issues in Malaysia.

To the regulators especially the government (Ministry of Rural and Regional Development, Social Welfare Department, and other related parties), the study will provide

meaningful information regarding the domestic firms' performance, and their contributions for the improvement of living standards of communities. The government through their policies and regulations will increase the level of commitment and readiness among domestic firms to be more responsible to marginalized people. This study also provides opportunity for the business sectors that engaged in CSR practices to have their own inter-industry comparisons.

This study also helps to identify the effective initiatives undertaken by the domestic firms to improve the livelihood of the community members and provide philosophy to guide these initiatives. It will provide insight for the businesses to develop an initiative to upgrade the living condition of the society in more strategic way.

To the NGO, the study will help them to set up appropriate mechanism in order to reinforce their voice between government, and the civil society to eradicate the social problems.

Lastly, from this study, it helps the local communities to identify which companies that have high sensitivity in addressing the social issues. Thus, this study actually make contributions to the stakeholders in their decision making process.

1.7 Overview of Chapter 1

Overall, the Chapter 1 focused more on introduction of the study and provides overview of the study as well. For the rest of the remaining chapters, basically the study is constructed into five chapters. Literature review from the previous studies, theoretical framework and hypotheses development will be presented in the Chapter 2. Chapter 3 will illustrate the data, research design, sample frame, data analysis, measurement of variables and expected result from the study. The result of the findings will be discussed next on the Chapter 4 ranging from descriptive statistic, correlation analysis and multiple regression analysis. Finally, Chapter 5 will discuss the

overall results, implications of the study, suggestion for the intended future research and conclusions to wrap up the discussions.

CHAPTER 2 LITERATURE REVIEW

2.1 Introduction

This chapter will discuss on the previous literature that has been undertaken and provide overview regarding the literature of CSR disclosure, firm characteristics and industry type. This chapter also will also highlight the underlying theories, theoretical framework and the hypothesis development.

2.2 Overview of the Development of CSR Practices in Malaysia

2.2.1 CSR Practices in Malaysia

There are few initiatives undertaken by Malaysian companies to increase social awareness ranging from poverty alleviation programs, health treatment, build infrastructure and provide social facilities to the community in order to improve their living standards.

As written by Chong (2010) claimed that by year 2015, Malaysia aims to improve the standard quality of life of the 2.4 million heads of households from the bottom 40 percent by increasing their average income from MYR 1, 440 in 2009 to MYR 2, 300 in 2015. Half of the bottoms 40 percent were believed to live in urban area with no sufficient education and a small number of them are employed in the private sectors. The social problem in Malaysia is a cliché phenomenon because such social improvement relies heavily on the state obligations. This is consistent with the study by Gokulsing (2011) in development of Mauritius stated that the pessimists believe that that provision for the social issues is the state's responsibilities because

most of the firms cannot escape by their goal to generate profits. Firms will practice CSR only when they gain profits in their business and such community involvement likely to help improve the quality of life of the disadvantaged society but only happened in the short lived. Therefore, Malaysia needs to force all the companies to tackle overall social issues in urban and rural area in order to ensure the improvement of their livelihood.

Currently, alleviating social problem is becoming the main goal in the national agenda and even in the Millennium Development Goals (MDGs). This is the challenge faced by the government to improve standard living of women-headed households, isolated elderly, migrant (legal and illegal workers) and Orang Asli in Malaysia whom carried about 51 percent of people living in poverty (United Nations Development Programme, 2005). Parallel with our national goal to alleviate social problem such as poverty eradication, the Malaysian Prime Minister's wife, Datin Paduka Seri Rosmah Mansor forced corporate sectors to help alleviate hardcore poverty in Malaysia by implementing the strategic CSR programmes into their business strategy (The CSR Digest, 2012). The CSR engagement by the companies may differ based on their company's characteristics in term of size of the company. A survey done by The Malaysian Institute of Management (MIM) in 2009 disclosed that MNCs, GLCs, together with the large visible domestic firms stated about 85 – 90 percent of involvement in the CSR practices in Malaysia.

CSR program can be tool to reduce the social issues for the improvement of a better life to the community. Syarikat Faiza Sdn Bhd is the Malaysian local company who address to improve the livelihoods of the community through the programme Bersamamu on TV3. The company collaborated with the media for the publicity in order to gain support from corporations

to come forward to reach the poor since their primary focus is on the poor and misfortune people (Ismail, 2009).

In Malaysia there is trend where companies address CSR at the different levels. This is due to the ethnicity and various religions professed by the Malaysian people. For instance, the programmes “Singah Sahur” only serve the marginalized people and the needy during Ramadhan. The poor communities, elderly, disabled, female-headed household and orphans will be noted by the companies normally during the festive seasons. The practices and initiatives of CSR undertaken by Malaysian companies are more seasonal. Thus, they are more focused on the programs in which the companies have benefited from it (Saleh et al., 2010; Zulkifli & Amran, 2006). Many companies in Malaysia have narrow understanding about CSR. Most of the companies failed to take the CSR concept down the line. According to Aaijaz & Ibrahim (2012) this is among the reason why Malaysian companies failed to solve the grassroots problem such as unemployment, slum settlement, poverty, education and meeting basic needs. To support this, a study undertaken by Rashid et al., (2002) identified the CSR areas to which the Malaysian companies emphasized most as shown in the Table 2.1

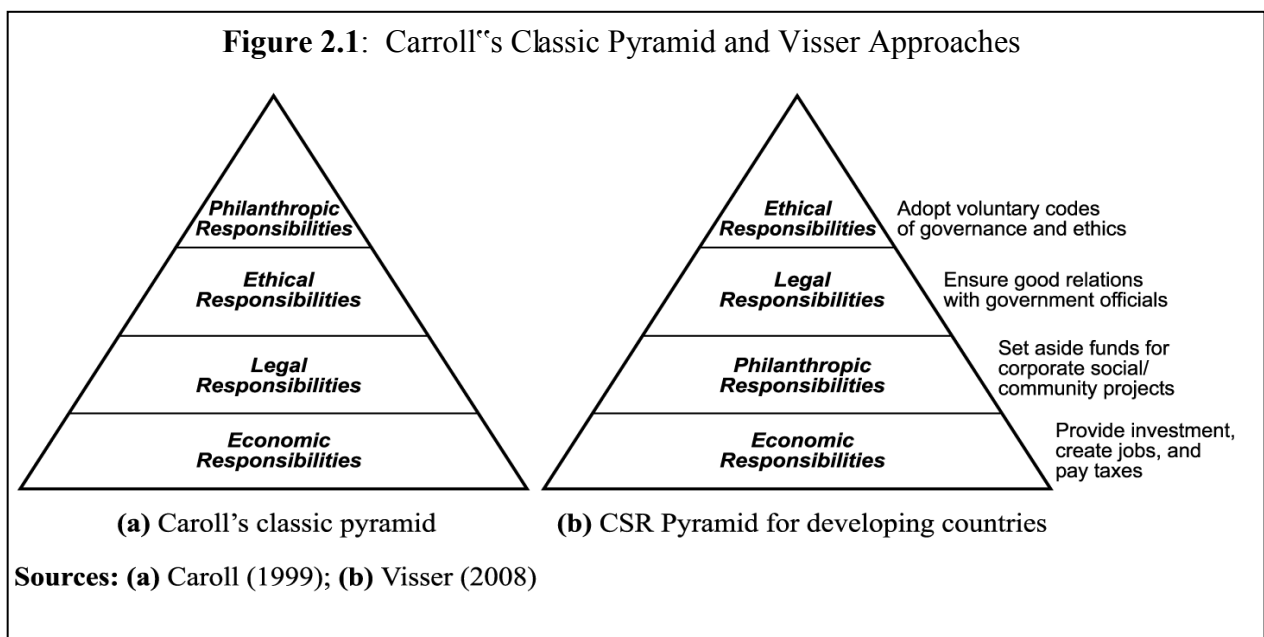
Table 2.1 : Area of CSR in which Malaysian companies are involved

		Yes 2001 (%)	Yes 1991 (%)
1	Employees' welfare(facilities and benefits)	91.8	91.8
2	Responsive to customer's complaints	82.9	86.4
3	Maintaining product/service quality to consumers	76.7	82.7
4	Ensuring product safety	62.3	64.5
5	Donation to welfare organizations	60.3	80.0
6	Provide guarantee policy or warranty provisions	52.1	
7	Provide contribution for games and sports	35.6	70.9
8	Contribution to culture and/or literary works	34.9	
9	Employment of handicapped individual	32.9	
10	Contribution to educational institutions (other than research grants, e.g. scholarship/bursary to students	24.7	
11	Assistance in overcoming problems related to drug abuse and alcoholism	21.2	
12	Provide loans for low-income housing	28.1	
13	Provide loans to small enterprise	21.9	
14	Contribution for public amenities(e.g. bus stop shades)	19.9	
15	Contribution to crime prevention	15.1	

Source: Rashid & Ibrahim (2002)

Based on the above research, CSR practices evolved significantly amongst the Malaysian companies from year 1991 to 2001. Although there are improvement in CSR practices by the Malaysian companies, they are still heavily focus in the area related to human resource and product/service to consumers (Teoh & Thong, 1984). Most of the companies involved in the internal CSR practices rather than focusing the local community. To tackle the societal issues, there is a need for the company to involve wide range of stakeholders especially the poor people and misfortune community. Thus, to improve the quality of life of disadvantaged community, CSR need to go beyond than just doing something good to the community which normally been

done by the philanthropy activities, charitable programs, and donation. However, only few studies have been carried out to examine the link between social problem and CSR practices in the developing countries (Ragodoo, 2009). The CSR approaches by the companies towards the social issues may vary between developed with developing country. This can be seen in Figure 2.1 between the Carroll's classic pyramids with the Visser alternative approach particularly in developing country. The source was been cited from study done by Ragodoo (2009).



Carroll's pyramid is an American ordering which failed to test outside the American context. This is contrary with Visser approaches which review CSR more in developing countries in Malaysia in particular. He also pointed out that different culture and subcultures may be a key challenge in relation to the perception of CSR priorities. His research is supported and based on the empirical study conducted by Burton et al., (2000), Edmondson et al., (1999) and Pinkston et al., (1994) where they concluded that the CSR initiatives are vary in the developed world.

The main state for the developing companies to engage in CSR is on the economic responsibilities, followed by the philanthropic, legal and ethical responsibilities, as approached by the Visser. Many companies likely Malaysia are involved in philanthropic activities through donation and charitable activities. This is due to the strong perception and profound belief that they must give something back to the community to which they operate. They believe such philanthropic activity and financial assistance are the fastest and immediate way to improve the living standards of marginalized communities (Ragodoo, 2009). Those financial assistances will create dependence community (passive recipient) because it's only improved on short lived and not for their sustainable future. Besides, in Malaysia we are facing less pressure to comply with the current regulations as compared to the developed countries.

2.2.2 Malaysian Empirical Studies on CSR

Majority of the empirical studies have focused in the developed countries such as UK, Australia and USA (Hackston & Milne, 1996). To date, many empirical studies were concentrated on CSR practices with the firm's characteristics such as the studies done by Mohamed Zain & Janggu (2006), Abdul Rahman et al., (2011), Haniffa & Cooke and Haron et al., (2008).

In Malaysia, Mohamed Zain & Janggu (2006) studied the general level of social disclosure by construction companies listed on the Malaysian Stock Exchange. Their study observed 37 construction companies in Malaysia for the year 1998 to 2002 with specific company's characteristics namely size, profitability, and leverage. Their finding implies that size and profitability have positively related to CSR disclosure. However, studies from Malaysia found no significant relationship between the financial leverage and the level of CSR disclosure.

This is contradicting with the study by Wallace et al., (1994) which found leverage has an impact on the CSR disclosure. The results from the previous studies provide strong evidence that larger and more profitable companies will disclose more on their social information signaling that they are responsible corporate citizens. The result also indicates that the trend of CSR practices by the companies are growing but still at the low level which consistent with the studies by Foo & Tan (1998) and Abdul Rahman et al., (2011) claimed that large firms revealed more social information as opposed to the small firms while studies of Haniffa &Cooke (2005), and Robert (1992) found strong evidence to support the level of CSR disclosure with the firms' profitability.

Haron et al., (2008) studied the level of CSR disclosure among Malaysian companies. The annual report of 135 companies listed in the Kuala Lumpur Stock Exchange for the year 2000 was observed. The findings found that trading and services industry stated the highest level of CSR disclosure. Firm characteristics such as size, leverage and industry type were found to have no significant difference with the extent of CSR disclosure. They also measured the industry type by classified them into high and low profile industry and measured by a dummy variable.

Based from the past studies, the independent variables such as firm size is measured based on the total assets (Abdul Rahman et al., 2011; Haniffa & Cooke, 2005), sales (Haron et al.,2008 ; Cooke, 1991) total employees (Siwar & Md.Harizan, 2008), and market capitalization. Financial leverage is measured based on debt ratio whereby total liabilities are divided by the total assets at the fiscal year end (Clarkson et al., 2011; Salleh et al., 2010; Mohamed Zain & Janggu, 2006). Based from the past studies, firm profitability is measured using ratio of net income to total of equity consistent with the past studies done by Galani et al.,(2011); Barako et

al., (2006); Haniffa & Cooke(2005). Other measurement can be used is a ratio of net income after tax by sales ratio (Abdul Rahman et al., 2011).

The earliest study with regards to the CSR practices in Malaysia was done by Teoh and Thong (1984). They used personal interview questionnaire survey to observe a combination of 100 foreign and locally owned companies in Malaysia. They found that only 29% of the companies reported on their social information. They also revealed that foreign owned companies made more CSR disclosure than the local companies in Malaysia. Human resource was been reported to be the most favorable disclosure to the companies. However, their study solely relied on the personal interviews without attempts to analyse the contents of company annual reports. Therefore, a content analysis methodology would have provided with more detail descriptions of the company's social information. Thus, current study will employ content analysis methodology in order to provide detail description on the CSR disclosure.

Nik Ahmad et al., (2003) employed content analysis methodology of CSR disclosure made by 98 companies across industries. They found that 84 % of companies have some social disclosure in their annual reports. This was significance increased from 29 % in Teoh & Thong (1984) study which examined the sample of 100 companies. The results revealed that the level of social consciousness by the companies is increasing due to the public demands for them to be socially responsible.

Based from the previous studies, the data analysis technique that is used to measure the social disclosure is content analysis. Some of the method that can be used to measure the CSR practices namely words (Patten, 1992; Haniffa and Cooke, 2005), sentences (Sobhani et al., 2012) and pages (Haron et al., 2008). This study will use similar approach undertaken by Haniffa & Cooke (2005) where they employed CSR disclosure index in order to measure the

level of CSR disclosure. A dichotomous approach to scoring was employed where the score of “1” will be awarded on the disclosed item and score of “0” for not disclosed.

Based on the above studies on the CSR disclosure, company characteristics namely size, and profitability have impact on the level of CSR disclosure in Malaysia while leverage and industry portrays mixed findings.

2.3 Corporate Social Responsibility

2.3.1 Definition of CSR

There are many CSR definitions developed by scholars since the period 1950s based on the social, economical, political and environmental context (Rahman, 2011). Besides, there seems to be an infinite number of CSR definitions, ranging from the simplistic to the complex, and a range of associated terms and ideas. Some use the term for CSR as „corporate sustainability, corporate citizenship, corporate social investment, the triple bottom line, socially responsible investment, business sustainability and corporate governance (Thomas & Nowak 2006; Blomback & Wigren, 2008).

Holme &Watts (2000) and Moir (2001) in their study defined CSR as the continuous commitment by the business in making good business sense whereby they behave ethically, achieve their economic development goals and in the same time improving the quality of life of communities and society at large.

CSR is about the current decision businesses done today that will affect the triple bottom line in the future. Thus, CSR covered the relationship between the corporations in which they operate and the societies in which they interact. Similarly, as stated by Wood (1991, p. 695)

“the basic idea of the corporate social responsibility is that business and society are interwoven rather than distinct entities”

CSR represent nothing less than an attempt to define the future of our society as it influences all aspect of business. Therefore, CSR is vital to both business and societal success. CSR is used as a compass for the sustainability in future as it covered a wide spectrum of issues ranging from economic and environmental perspective to the social considerations.

CSR is mainly about how the companies voluntary exercise their daily operation in more socially responsible way and in order for them to develop sustainable strategy, they need to concentrate on areas particularly in economic, environmental and social.

2.3.2 Theories to Understand CSR Practices

There are no specific theory in defining the CSR practices and contributions undertaken by the companies. However, based on previous studies, legitimacy theory (Blomback & Wigren, 2008) can explain CSR practices in the organizations although both are interwoven and interrelated in focusing the organization and environment (Van Der Lan, 2004; Abdul Hamid & Atan, 2011). Therefore, the CSR practices in the organizations can be explained by this theory

Legitimacy Theory

The basis for legitimacy theory can be found in the explanation of legitimacy as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within

some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995, p.574).

Organizations are assumed to perform in a sustainable manner parallel with the society expectations. Companies will lose the legitimacy if they do not behave in the right way. As pointed by Abdul Hamid & Atan (2011), organizations are persistent to ensure that their activities are perceived as „legitimate“ by their respective societies. Therefore, in order to be legitimate in their operations, organization needs to operate within the norms of their societies. Moir (2001) in his research paper notes about the deep meaning of CSR and he even looked at the different philosophical approaches and finally highlighted that “responsibility means that executives are held accountable for their actions”.

Besides, legitimacy provides a way to critically disassemble the corporate disclosure (Tilling, 2004) and such disclosures will help to guard the organizations’ relationship with publics and in the same time create a good image that publics have on the organizations and its practices (Neu et al., 1998). Disclosure of the corporate social practices is deemed vital to ensure persistent inflows of capital, to demonstrate social consciousness of the respective publics and values to help close any perceived legitimacy gaps (Haniffa & Cooke, 2005).

Therefore, CSR can be defined as the firms’ efforts and initiatives in gaining, improving or maintaining their legitimacy (Moir, 2001; Shuman, 1995). Thus, in other words CSR is the form of legitimation. Neu et al., (1998) claimed that in order to attain legitimacy, companies need to voluntarily disclose their CSR practices in the annual report. Hence, the purpose of this study in explaining the legitimacy theory is to identify the action taken by the domestic firms in Malaysia in providing their CSR disclosure in relation to raise the well being of its community

which can be explained in their annual report, sustainability report or even in their companies' websites.

2.4 Domestic Firms in Malaysia

Domestic firms are the firm that conducts its business in their home country although they may export some of their products or services abroad. Such firm is domestic firm when it is wholly owned by Malaysian, measured in percentage of share held, while foreign corporation known as business that operates abroad and not in their origin country. Domestic firm can be incorporated as private company or public company. In Malaysia, generally there are three types of companies namely companies limited by shares, companies limited by guarantee and unlimited companies (Zainal Abidin, 2007). Section 14 until Section 18 in the Company Act 1965 prescribed the legal and general procedural requirements for incorporation of companies in Malaysia from formation of companies, registration and incorporation, until the requirements as to memorandum. Number of registered local companies in Malaysia for year 2010 is about 878,527 and by year 2011 the local companies registered had increased to 922, 675 companies (<http://www.ssm.com.my>).

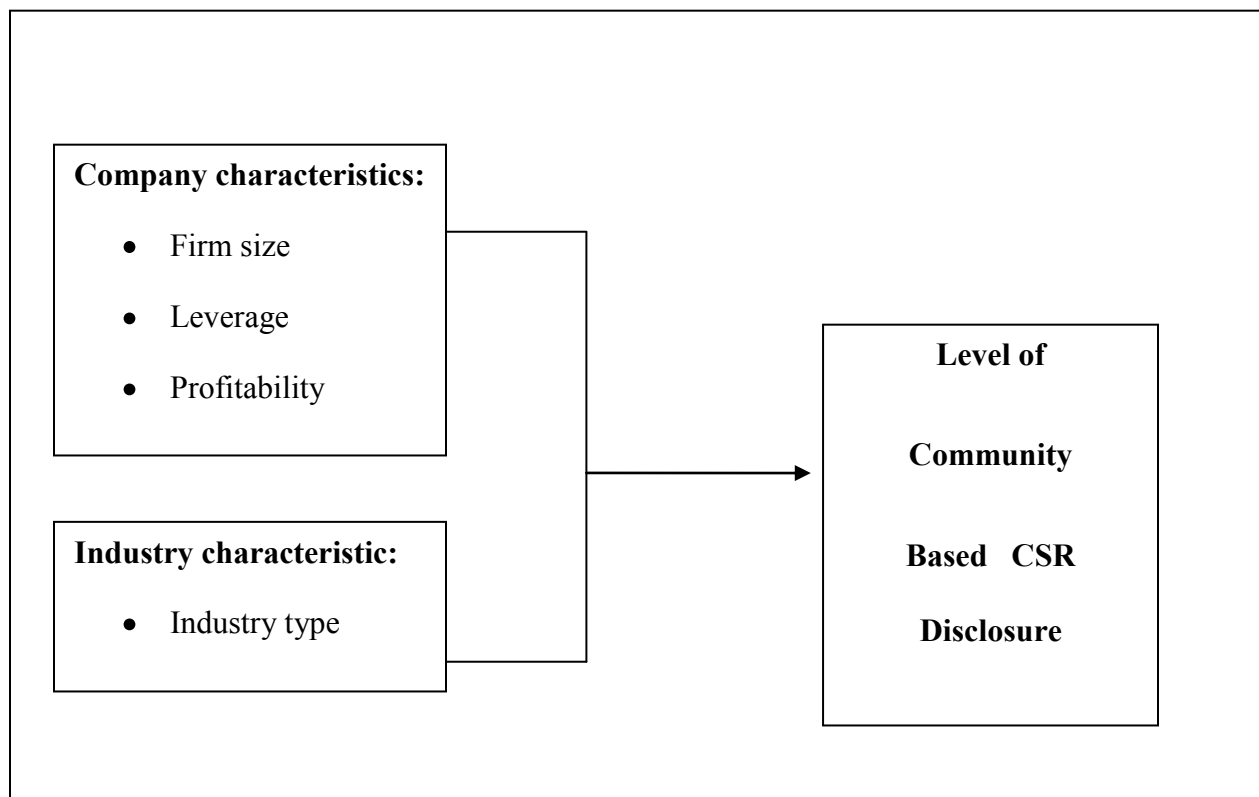
2.5 Theoretical Framework

The objective of this paper is to formulate the relationship between the firm size, industry characteristic and the firm trend particularly in domestic firms with the extent of the CSR practices to improve the living standards of community members.

This study is carried out because there were only few empirical research were done in domestic firms in Malaysia especially in relation to CSR practices and linkage between the CSR initiatives with the social issue. Most of the studies in Malaysia generally examine the CSR disclosure in the annual report by the MNCs, GLCs, local companies, and small medium enterprises (Nik Ahmad et al., 2003; Salleh, 2009; Abd Rahman et al., 2011; Salleh et al., 2010). A study by Siwar & Md Harizan (2008) only examine the CSR practices among the business organization in Malaysia as general and lack research paper that investigate the linked of CSR practices with social problem.

Therefore, the theoretical framework of the study is illustrated in schematic diagram as shown in Figure 2.2

Figure 2.2: Theoretical Framework



2.6 Hypothesis Development

The hypothesis development in this study is based on the legitimacy framework. Based on the above theoretical framework as shown, three hypotheses will be tested in this paper.

2.6.1 Firm Size

There are a few empirical studies that determine the important of size for CSR activities. Based from the study done by Teoh & Thong (1984), Abd Rahman et al., (2011) and Nelson (2006) found that corporate size and ownership structure are relevant in reflecting the extent of CSR practices undertaken by the companies and this is why their studies are mainly focusing on the large firms' contribution. They claimed that the larger the companies the greater CSR practices will be involved. Any efforts regards to the CSR contributions normally come from the larger corporation instead of from medium and small firms.

The larger the firm size, the greater it will geared to address the social issue in Malaysia. Consistent with the study done by Abdul Hamid & Atan (2005) which examine the CSR among the Malaysian Telecommunication Firm declared that firm size is one of the determinants in influencing the extent of CSR practices. Bigger and matured firms are directed to have greater extend in their CSR activities and disclosures (Sawani et al., 2010; Gardiner et al., 2003; Bayoud et al., 2012). Pressures perceived by the larger firms from their respective community are greater than the small firms (Blomback & Wigren, 2009) resulting higher number of larger firms and medium size firms reported their social practices as compared to small firms (Nik Ahmad et al., 2003). The larger the organizations the bigger the impact they have on the community (Haron et al., 2008) and their CSR disclosure (Gao et al., 2005).

However, contrary with the findings made by Aaijaz & Ibrahim (2010) whereby they found no correlation between the firm sizes with CSR performance reporting by the company. They believed that other factors such as international aspiration and the power of leadership by the CEO are more to be key drivers towards CSR performance.

The size of the firm has a greater impact to the level of CSR practices performed by the companies. Larger firms execute more activities as they faced immense pressure to disclose their social activities. Total assets are used to measure the size of the firm and its scales, besides number of employees or firms' annual turnover (Haniffa & Cooke, 2005). The findings were supported with the study by Siwar & Md Harizan (2008). They used total number of employees as proxy and found the size of the organization has significant relationship with the extent of CSR practices undertaken by the companies in Malaysia. Large firms make more disclosure for a reason of accountability, stewardship and visibility as outlined by the legitimacy theory. Therefore, the theory supports the hypothesis and based on the discussion above, the hypothesis will be:

Hypothesis 1: *Firm size is positively related to the level of community based CSR disclosure by the domestic firm in Malaysia*

2.6.2 Leverage

As based on Mohamed Zain & Janggu (2006), there are only few studies that examined between the financial leverage with the amount of CSR disclose by the companies. High in leverage will increase the interests of the bondholders (Smith & Warner, 1979). Agency costs said to be increase in the highly financed company through debt. However, to have reduction of the agency costs, company need to point on its ability to meet its debts and manage the funds

(Haron et al., 2008). This can be successfully done through disclosure of their social information. The evidence claims that the monitoring demand for the company's information will increase in tandem with the leverage.

From the previous study done by Mohamed Zain & Janggu (2006) revealed no statistical relationship between the financial leverage with the extent of CSR disclosure. They found that the financial leverage have a negative relationship with the extent of CSR disclosure in the annual report. The relationship only significant for three years from 1998 to 2000 and not for the remaining years. The findings also similarly with the studies done by Haron et al.,(2008), Barako et al., (2006); Clarkson et al.,(2011) where they found no significant relationship between leverage and the CSR disclosure. The results from above research however contradicted with the findings done by Mohamad & Ahmad (2001) and Craig & Diga(1998).

Firm tends to report more if it has large sums of total debt in their balance sheet and the motivation to report is to enhance their opportunity in obtaining funds from the financial institutions as supported by the legitimacy theory. Abdul Rahman et al., (2011); Abdul Ghaffar et al., (2004) claimed that financial leverage not influence by the extent of the CSR disclosure in Malaysia because the main source of financing is through banks and other financial institutions. This situation varied amongst other countries which public debt became their main source of financing. Due to the differences, most research studies done in Malaysia found negative relationship between the financial leverage with the extent of CSR disclosure. This indicates that Malaysian companies still have low level of social consciousness and do not adopt the legitimacy strategies to address their respective stakeholders. Therefore, in light with the discussion above, the hypothesis is examined:

Hypothesis 2: *The higher the leverage of the firm, the greater the level of community based CSR disclosure.*

2.6.3 Profitability

The reason behind the large and big companies to disclose their CSR activities are because of the stewardship, accountability and as being visible to their stakeholders consistently of what being highlighted by the legitimacy theory. Willingness of the company to report on their CSR practices is positively related to its profitability.

Few previous studies had investigated the relationship between the CSR disclosures with the profitability of the company. Foo & Tan (1988), Robert (1992) and Haniffa & Cooke (2005) found positive relationship between profitability with the amount of CSR disclosed. Profitable companies tend to disclose more on the CSR contributions compared to poorly performing companies which only disclose less information in order to conceal their poor performance. Profitable firms heavily focus to disclose more to market to boost up the companies' value and reputations (Singhvi & Desai, 1971; Barako et al., 2006) and large company is vulnerable to the regulatory interventions to disclose their detail information.

Other previous studies which to claim that there are no significant relationship between CSR disclosure and profitability are Galani et al., (2011), Hossain & Hammami (2009), Barako et al.,(2006), Hackston & Milne (1996), and Patten (1991). They found that profitability was not statically related to the amount of CSR disclosure.

Mohamed Zain & Janggu (2006) in their study of CSR disclosure by the construction companies in Malaysia examine the relationship between the company profitability with the level of CSR disclosure. They claimed that larger and profitable companies disclose more on their