CORPORATE SOCIAL REPORTING IN MALAYSIA: THE CURRENT STATE OF THE ART AND FUTURE PROSPECTS

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CONTENTS

CHAPTER 3 FINANCIAL AND CORPORATE SOCIAL REPORTING

CHAPTER 4 THE THEORETICAL FOUNDATIONS OF CORPORATE SOCIAL DISCLOSURE

CHAPTER 6 CONTENT ANALYSIS OF SOCIAL DISCLOSURE

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ABSTRACT

Corporate social reporting has, since the early seventies, attracted the interest of various user groups. As a result, a long history of research into corporate social disclosure practice is observable in developed countries particularly the United States and Western Europe. However, very little attention has been focused on developing countries. This research investigates the extent of corporate social disclosure in Malaysia, the type of disclosure made and the relationship between disclosure practice and company characteristics. The study also seeks to understand why corporations in Malaysia are disclosing social information. A content analysis is presented, centring on 100 1993 annual reports of major Malaysian companies, to find the extent of disclosure and personal interviews are conducted to find out the reasons for disclosure.

Content analysis demonstrates that Malaysian companies are actively disclosing social information with size of company being a major determinant factor. Human resource information is the main social theme disclosed. Personal interviews reveal that most companies are disclosing social information due to top management awareness together with a desire to comply with the government's social policy and enhance corporate image. The study highlights the communication gap that exists between providers and users of social information and the dilemma faced by companies in seeking a balance between transparency and Islamic teachings. The research provides further insights towards an understanding of the reasons for social disclosure in developing countries where the culture, values and religious beliefs are different from those of western countries.

LIST OF TABLES

LIST OF CHARTS

LIST OF FIGURES

LIST OF EXHIBITS

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND

Gray, Owen and Maunders (1987) define corporate social reporting as the process of providing information designed to discharge social accountability, the responsibility to account for actions for which one has social responsibility. Corporate social reporting has, since the early seventies, attracted the interest of various groups. Corporations have slowly incorporated social reports in their financial statements. Academicians and the accounting profession have been constantly reviewing, researching, surveying and monitoring corporate social reporting. Activist groups, consumers and other users have been pressuring corporations, profession and governments to increase the amount of social information in corporate reports (see, for example, Heard and Bolce, 1981; Roberts, 1991; Tilt, 1994).

Gray et al (1987), indicated that interest in corporate social reporting reached its peak in the early eighties but declined in the mid eighties. The decline of corporate social reporting by UK companies "mirrors the path of events in the economy generally and on the political scene" (page 61). However, by the late eighties, corporations began disclosing more information on the environmental impact of their activities as public and political interest in green issues dramatically increased (Harte and Owen, 1991). Interestingly, this focus on environmental impact contrasts sharply with the overriding emphasis on labour issues apparent in the earlier wave of social reporting practice, particularly in mainland Europe.

The overwhelming majority of empirical research on corporate social reporting has been conducted in developed countries, notably the United States, United Kingdom and Western Europe. For example, in the United States a considerable amount of survey evidence of the extent of reporting practice was generated back in the 1970's (see, for example, Ernst and Ernst, 1972 et seq; Arthur Anderson, 1974). A further feature of United States research studies has been a clearly discernible focus on the relationship between social (or environmental) performance and disclosure and economic performance (see, for example, Freedman and Jaggi, 1988; Belkaoui and Karpik, 1989).

In Western Europe, surveys of social reporting practice have been carried out in Germany, Holland, Belgium, Finland, Poland, France, amongst other countries (for examples, see, Brockhoff, 1979: Dierkes, 1979; Dekker and Van Hoon, 1982; Theunesse, 1979; Delmot, 1982; Niskala, 1993; Stepien; 1994). Recent work conducted in the UK by Spencer-Cooke (1993) on the strategic use of corporate environmental disclosures by financial analysts in leading stockbroking houses in Europe suggested that non financial social disclosures are likely to grow in significance, particularly with the development of Environmental Management Systems.

Attempts to explain why companies are making social disclosures also abound. There is however, no one agreed upon theory and framework for corporate social disclosure. Some adopt conventional accounting theory approaches while others adopt a social contract approach. The basic line of argument for theories adopting a conventional accounting approach is that companies are disclosing social information as an extension of traditional accounting and traditional user groups (capital providers) are using this information for decision making (see, for example; Spicer, 1978; Belkaoui, 1984; Dierkes and Antal, 1985). The social contract approach, which includes stakeholder theory, accountability theory, legitimacy theory, and political economy theory, on the other hand suggests that social disclosure demonstrates social responsibility because of the inter-relation between the organisation and society (see, for example, Gray et al, 1987; Patten, 1992; Guthrie and Parker, 1989; Gray, Owen and Adams, 1996).

Despite the long history of research into corporate social disclosure practice, very little attention has been focused on developing countries. Rare examples of studies conducted in the context of developing countries are those of Singh and Ajuha (1983), Meheshwari (1992), and Savage (1994). Singh and Ajuha examined the extent of disclosure of social responsibility in forty annual reports in India and analysed the relationship between different organisational characteristics and disclosure of social responsibility. They found out that company size (total assets) and type of industry influences social responsibility disclosure. Meheshwari also conducted a similar study in India but with a larger sample of 100 companies. Meheshwari also looked into the different categories of disclosures (for example human resource, community, etc.) and found that corporate size has an impact upon environment, energy, and community involvement disclosure while industry membership has an impact on energy and community involvement disclosure. Savage (1994) on the other hand investigated corporate social disclosure in South Africa by analysing 54 annual reports of publicly listed companies selected at random from the 115 top companies in terms of market capitalisation. The findings of the study indicated that disclosures are mainly concentrated on human resource and community involvement issues.

There have been only two studies of corporate social disclosure practice in Malaysia. The first, Teoh and Thong (1984), surveyed one hundred public-listed companies in different industries to find out the extent of disclosure and focused on the concept of corporate social responsibility, the nature and extent of involvement in socially relevant activities and corporate social reporting. They suggested that companies are aware of their social roles because of top management philosophies. Social activities have been practised with the main emphasis on human resource issues and product/service to consumers. It was also discovered that most of the companies reporting on social aspects are largely public-based companies with major foreign ownership. Secondly, Andrew, Gul, Guthrie and Teoh (1989), surveyed the 1983 annual reports of 119 public listed companies in Malaysia and Singapore. Their survey indicates that only 26% of the companies made social disclosures with the main theme again being human resources.

The two studies carried out by Teoh and Thong (1984) and Andrew et al (1989) are in the main simply surveys which concentrate largely on the amount of disclosure by companies. Whilst Teoh and Thong did begin to investigate the reasons why preparers report social information, they did not touch on the form of disclosures, who the target audience were and why some companies did not disclose social information. Most fundamentally, the surveys did not address the issue of user needs. Furthermore, such work is now very 'dated' and, as noted earlier, the agenda for social reporting has, in developed countries, changed with the passage of time. Hence there is a need for new survey work that addresses current reporting practice in developing countries.

In developing countries where businesses are vitally concerned with increasing production, government and consumers with developing public amenities and infrastructure and shareholders with high profits, and where exploitation of labour is quite rampant, corporate social reporting may not be emphasised at all. Schwarz (1993), for example, stated that the dilemma of how to balance the need for economic development and the cost of environmental deterioration still remained more than a year after Rio's 1992 Earth Summit. For Asian developing countries, environmental concerns are arguably given a lower priority than such critical issues as food production (Schwartz, 1993). Malaysia is no exception. Being a developing country, she has plenty of natural resources and a relatively 'clean' environment (Schwartz, 1993). The people's sensitivity towards the environment and corporate social responsibility is just beginning.

One might expect such sensitivity to develop as the Malaysian economy rapidly grows (in 1995 the country achieved a real GDP growth rate of 9.5%). Since 1987, manufacturing has emerged as the leading economic sector followed by agriculture and mining. Leading export-oriented manufactured products are electrical and electronic products, textiles and wearing apparel as well as rubber-based products. Malaysia is the world's largest exporter of palm oil, natural rubber, tropical timber, and a leading world exporter of cocoa beans and pepper. Malaysia is considered the mini dragon of Asia next to Japan, Korea, Taiwan and Singapore (see for example; Huq, 1994; Hutton, 1995)

Indeed, Malaysia is not already without crises and faces pressures both internally and externally on environmental and labour issues. One example is a big hydro-electric project, the Bakun Project, which could submerge millions of acres of primary jungle and its inhabitants (see, The Guardian, 31/1/94), another is the cutting of the rain forest. The collapse of a condominium in the Malaysian capital in early 1993 with a death toll of 49 (The New Strait Times, December 1993), and the collapse of several buildings in progress in the early 90's provide other instances where managerial actions and responsibilities should be scrutinised. In addition, the frequent accidents in factories such as the big fireworks factory fire at the outskirts of Kuala Lumpur in 1992 (New Straits Times, February 1992) are but some of the environment, safety and labour issues beginning to emerge.

International pressures have also brought about awareness towards corporate social responsibility issues. The Langkawi Declaration, a proposal for all the Commonwealth countries to be environmentally friendly, was one of the main items on the agenda of the Commonwealth Heads of Government Meeting held in Malaysia in 1992. Vision 2020, introduced in 1989 by the Premier, was aimed at encouraging the nation to be competitive at the turn of the century without compromising prime social obligations such as social justice and preserving the environment. The minimum wage proposal brought forward by the Americans (The New Straits Times, August 1994) has pressured the Malaysian government to impose minimum wages for its workforce if Malaysia is to enjoy benefits from the General Agreement on Tariffs and Trade (GATT). The World Bank on the other hand would approve loans only if the activity takes into consideration the social and environmental impact of the project (Huq, 1994).

1.2 RESEARCH OBJECTIVES

An avenue for a corporation to disseminate information is through its annual report. Apart from the mandatory financial information, social information is also disclosed by companies. This study will begin by investigating the extent of social information disclosed by Malaysian companies. The type of social disclosure currently reported in corporate annual reports and the relationship of disclosure with company characteristics will also be investigated.

The reasons for companies disclosing this social information are still not fully understood. Hence, the main aim of this study is to understand why corporations in Malaysia are disclosing social information. As this study assumes that social disclosures are primarily for the purpose of discharging accountability, it will probe into the reason for disclosure via a semi-structured interview with financial directors from disclosing companies. To better understand the model of accountability, and the social-organisation relationship, this study will also probe into the 'absence of social information'.

Whilst, it is assumed that companies are disclosing social information to discharge accountability, the possibility of companies disclosing for the reason of satisfying user needs cannot be dismissed. Among the major users of corporate information the financial analyst plays a pivotal role as intermediary between the company and the financial community, filtering and interpreting the information disclosed by firms and feeding it through to investment institutions as advice and recommendations. Although the importance of user groups other than capital providers in the development of social reporting is acknowledged it is felt that at this stage in the development of the Malaysian economy financial analysts are likely to have more clearly articulated information needs, particularly as regards 'accounting based' information. Furthermore, capital markets clearly have an important role to play in directing investment towards socially responsible corporate activities. This research will therefore also explore the perceptions of the financial analysts, through semi-structured interview as to the usefulness of the social information currently disclosed in annual reports.

1.3 CHAPTER OUTLINE

Chapter Two looks at how Malaysia's social, political and economic development might have influenced social reporting. It will begin with a brief look at Malaysian history, its development as a multiracial society and its different cultures. The chapter will proceed to the coming of the European who introduced western economy and development models. It will then look into Malaysia's current economic situation and its vision of becoming a developed country by the year 2020. Finally the chapter will draw out the social, political and economic similarities and differences between Malaysia and Western countries where most social reporting and theory development literature has appeared.

Chapter Three reviews research into current practices which provides a background from which to develop theory, methodology and research tools. The purpose of this chapter is to explain the development of corporate social reporting and how it implicates the Malaysian environment. This chapter will initially explore the need for corporate social reporting by looking into the development of financial reporting, its objectives and the role of changing public expectations. It will then proceed to describe the current state of play and patterns of disclosure of corporate social reporting in developed countries and how the socio-political and cultural environment affects the development of corporate social reporting. The chapter will finally analyse previous studies of disclosure practice in Malaysia and try to establish how Western developments have influenced Malaysia.

Chapter Four considers the underlying assumptions that constitute methodology and theory. The purpose of this chapter is to examine the theoretical framework of corporate social reporting and how it relates to the Malaysian environment. This chapter will begin with an exploration into the assumptions that underlie the social sciences and their theoretical development. It will then proceed into a review of conventional accounting theory and its limitations. Finally, based on the above assumptions and theories, this chapter will try to explain the current state of corporate social reporting theory relevant to Malaysia.

Chapter Five outlines the methodological assumptions, sample utilised and research instrument employed in the study. Content analysis was initially used to describe the current corporate social disclosure in Malaysia followed by personal interview to determine the reasons for disclosure.

Chapter Six analyses and interprets initial results from the survey. This chapter is divided into two sections. Section one attempts to find out whether a company had reported any aspect of its social performance in the annual report and if so, how much is disclosed. The major themes of disclosure and their sub categories as well as the different company characteristics that affect disclosure are also identified in this section. This section will also give some insight why the hypotheses in the next section have been selected for testing. The second section will test the hypotheses identified and investigate the association or correlation of disclosure with corporate characteristics, such as size, profit, industry membership and country of ownership.

Chapter Seven presents the personal interview results. Beginning with semi-structured interviews with financial directors to find the reason for disclosure, the chapter proceeds to analyse why others are not disclosing and also investigates the financial analysts' perception as to whether they are using the social information provided. Finally this chapter will attempt to interpret the outcome of the interviews using accountability theory as a framework.

Finally, Chapter Eight will present conclusions and recommendations for further research.

CHAPTER TWO

MALAYSIA: THE SOCIAL, POLITICAL AND ECONOMIC CONTEXT

2.1 INTRODUCTION

Since the Second World War, Malaysia has been through the communist insurgence (1948-60), the fight for independence, multiracial conflict (1969), recession and political conflict. Malaysia has come a long way since then. Considered as the new tiger of the East (see Hutton, 1995), Malaysia is fast moving forward to becoming a new developed country. Huq (1994) identified that Malaysia's success in economic development has been based on several factors, the most important being the overall stability of its social and political environment (see also Onn, 1989). With an economy that grew steadily at 8% and over between 1988 and 1996 and is expected to grow through the next millennium, Malaysia's vision of becoming a developed nation by the year 2020 appears realistic.

This chapter will look into the social, political and economic developments that might influence social reporting in Malaysia. It will begin with a brief look at Malaysian history, its multiracial society and its different cultures. The chapter will then examine the impact of the Europeans who introduced western economy and development. It will then look into the current economic situation and Malaysia's vision of becoming a developed country by the year 2020. Finally the chapter will draw out the social, political and economic similarities and differences between Malaysia and western countries where most social reporting practice and theory development literature has appeared. The difference in culture and religious beliefs will form the basic focus for this analysis of corporate social reporting in Malaysia

2.2 A BRIEF HISTORY

Long before the coming of the Europeans, Malay peoples had established settlements along the coasts and riverine estuaries of the Malay peninsular. These were to become important trading posts and later the genesis of small kingdoms (see INTAN, 1991). Beginning in the 2nd century BC the Malay peninsula experienced over 1000 years of Indian or Indianized influence, and in the thirteenth century AD Arab and Indian Muslims brought Islamic and Arabic influence to the peninsula. The Portuguese were the first Europeans to arrive in 1511 when they captured the trading port of Melaka from a Malay ruler. The Dutch, who had a foothold across the Straits of Melaka on the island of Java, laid siege to Melaka and succeeded in capturing it in 1641. The British later came to take control over Melaka. Their first beachhead was Penang, which was leased to the British East India Company by the Sultan of Kedah in 1786.

By 1867 Penang had joined with Melaka and Singapore to form the Straits Settlements, thus a new British Crown Colony was formed. Some Malay states accepted British 'advisers' under the guise of British Residents and in 1895 these became the Federal Malay States consisting of Perak, Selangor, Negeri Sembilan, and Pahang. The remaining states, described as the Unfederated Malay States, included Kelantan, Terengganu, Kedah, and Perlis, which had been extricated from the Siamese sphere of influence in 1909. Together with Johor, these were later brought into the British sphere. British political control over the whole peninsula radically transformed Malaya socially and economically and brought about stability that lasted until the Japanese invasion in the Second World War. Following the expulsion of the Japanese and the return of the British in 1945, the attempts of the Colonial Office to organise Malaya into one state offended the Malays, who were determined not to revert to a mere colony (INTAN, 1991).

In 1946 the United Malay Organisation (UMNO) was created under the leadership of Dato Onn Jaafar, and in 1948 a federation uniting all the states in the Malay peninsular, Penang, and Melaka was formed. The Malayan Communist Party immediately rose in armed revolt and attacked the British using guerrilla tactics.

An 'emergency' was proclaimed in 1948 and the British attempted to crush the revolt by military action as well as removing its political causes. The latter was achieved by encouraging the attainment of independence through political co-operation of the two major races in the country (Miller, 1965; Ryan, 1976). Under the leadership of Tunku Abdul Rahman, UMNO joined with the Malayan Chinese Association (MCA) to capture the 1955 general election. Britain responded to this mandate of the people by relinquishing its powers in Malaya. On August 31, 1957, Malaya secured its independence.

By 1959, Singapore, under Lee Kuang Yew, had secured full self-government. Singapore pressed for independence through merger with Malaya. A merger was agreed in order to forestall the growth of communist influence among Singapore's Chinese population (Mohamed Nordin, 1974). However, to offset the inclusion of millions of Chinese Singaporeans, Malaya suggested in 1961 that Brunei, Sabah and Sarawak join in the merger (Gullick, 1981). After considerable discussion and amidst increasing opposition from Indonesia and the Philippines, these states, except for Brunei, established a new independent state of Malaysia on September 16, 1963. Singapore however, withdrew from Malaysia on August 9, 1965, fearing that the Malays would dominate the Federation (Mohamed Nordin, 1974).

2.3 PEOPLE AND CULTURE

Malaysia has a population of nearly 20 million consisting of the Malays[1], Chinese[2], Indians[3] and other indigenous groups[4] and is growing at a rate of 2.3% per annum.

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[1] The Malays and other indigenous people are referred as the Bumiputra community or 'sons of the soil'. The Malays form the predominant ethnic group. The conventional view of the Bumiputra focuses on the simplicity of rural life as farmers and fishermen. While this life still exists, the Malays have also taken their place in all walks of the country's business life, industry and commerce and particularly in the government service.

[2] The second largest racial group consists of Chinese from various districts (mostly from southern China), linguistic and regional communities. Chinese form about a third of the population. The majority of Chinese immigration occurred in the nineteenth century. Having immigrated as traders, labourers, miners, and cultivators under the British rule, the Chinese now live mainly in towns and dominate private business and industry. Unrestricted immigration of both Chinese and Indians took place until 1931 when controls were introduced and ended altogether on the outbreak of the Second World War. The Chinese are prominently active in Malaysia's commercial life, and their religions are divided between Buddhism, Confucianism, Taoism and Ancestor Worship.

[3] Large-scale migration from the Indian sub-continent to Malaya followed the extension of British rule to the west coast Malay states in the 1870's. As early as 1901 the Indian population in the Straits Settlement was approximately 120,000 and by 1947 it had grown almost to 600,000 in Malaysia and Singapore. Today, Indians account for about 11 % of the population. Like the Chinese, the Indians came to Malaysia hoping to make their fortune, although most of the Tamils ended up as indentured labours on the rubber estates. The next largest group are the Indian Muslims, and there are small

With its multiethnic composition of population, Malaysia's culture and religious practices are very diverse. Even though Islam is considered as the State religion there is complete freedom of worship. Bahasa Malaysia is the national language whilst English is widely spoken and considered the second language.

Religion has had the most influence in moulding the society (Ryan, 1971). Malay culture is composed of Hindu and Muslim influence; Chinese culture is a mix of Confucianism, Taoism and Buddism; while the Indians who live in Malaysia have a cultural background that is developed from Hinduism. As religion plays an important part in the cultural development of all societies an understanding of people's religion will enable us to acquire some understanding of the way they live and behave.

The Malay society, like others in the East, has retained the influence of religion to a greater degree than most European countries. Religion is still an important part of the fabric of society and has yet become purely the private concern of individuals. In Malay society, though modern ideas are beginning to affect the minority, religious observance still has a considerable hold over the mass of people. Islam, the religion of the Malays, affects more than their method of worship for it permeates their whole life.

Islam is a complete religion revealed by God through his prophet to be disseminated to all mankind to the end of time, and it contains a system of life and living that is wide and all-encompassing for man's happiness in this world and the next (Sadeq, 1990). Islam is concerned with *Aqidah* (faith and belief), *Ibadah* (principles and rituals of worship), and *akhlak* (morality). The 'Five Pillars of Islam' are the *Aqidah* and *Ibadah*, the five things a good Muslim must do. The first is the Profession of Faith, 'There is no god but Allah, and Mohammad is the messenger of Allah'.

communities of Christians and Sikhs each representing less than 3% of the total Indian element. The north Indians, except for the Sikhs, were mainly merchants and businessmen. The Sikhs were recruited for the para-military and police units, which form the nucleus from which the modern police and the military forces of Malaysia are derived. The Sikhs continued to be identified mainly with military and security operations, but after 1930 there was a marked increase of Sikhs in the professional and commercial fields.

[4] The indigenous people of the peninsular Malaysia are the Orang Asli. The main indigenous people of Sabah are the Kadazans, Murut and Dusuns while in Sarawak, the Ibans, Melanaus, Bidayuh etc. The total population of the indigenous people is less than 1 percent.

Secondly there are the five Ritual Daily Prayers. The third pillar is the necessity to fast during the month of Ramadhan (the ninth of the lunar months of the Muslim year). The fourth injunction is to make a pilgrimage to Mecca. Finally Muslims have an obligation to give alms called *zakat* and *fitrah* to the less fortunate.

The Qur'an is a collection of the Words of God given directly to Mohammad. Islamic belief is enshrined in the Qur'an, the Muslim Holy Book, and it is this book that is the centre of the faith. The Qur'an also stresses amongst other things, no worshipping of idols, abstain from certain foods such as pork, abstain from drinking spirits and from gambling. The Qur'an deals with every one of life's happenings; thus it is much more than a set of rules for good behaviour, it encompasses all social activities.

Buddhism, Taoism and Confucianism have influenced the Chinese society. While the teachings of Confucius and his followers have influenced the Chinese code of moral behaviour, Taoism and Buddhism deals more especially with the Chinese attitude towards the gods, life after death, and the supernatural. Confucianism is not a religion whereas Taoism and Buddhism are, but together they form the basic beliefs of the Chinese people. Confucianism tries only to lay down rules for life in this world. It established a moral code which became the backbone of Chinese society for centuries. Confucius and his followers' influence have affected nearly all levels of society in some way especially the education and training of the ruling classes.

The Indians are one more element helping to make the colourful pattern of Malaysian society today. The brightly painted temples and the gay and vigorous processions, which occur once or twice a year, are soon noticed. These are the external evidences of Hinduism. Hindus believe in reincarnation, that is, rebirth. They believe that the soul does not live one life in this world, but is continually reborn. During the time that the soul is involved in the cycle of reincarnation the status the soul achieves in the life to come depends on the kind of life it has lived during this existence. One may rise or fall in the social order, the soul may inhabit the body of a human being in this life and that of an animal in the next.

Culture itself is a source of group identification (Wan Hashim, 1983). Individuals will look to their own cultural group for security and affection and thus the basis of unity and solidarity is communal or primordial rather than national. Religion is perhaps the most important factor in development of a people's custom and traditions, and the three religious backgrounds of the people are dissimilar. Cultural mixture between the different races has been limited. One reason for this could be because of the limited intermarriage between the three races. Also the different eating rules of the religions have precluded much social mixing. For example, the Chinese eat much pork, which is forbidden to the Malay; the Malay likes beef, which is forbidden to the Indians; and neither the Malays nor the Chinese are really vegetarians, as in the Hindu. The effect of different religious beliefs not only accentuates the differences in the cultural traits, thus strengthening the psychological barriers between groups, but also perpetuates the ethnic stereotyping.

2.4 COLONIAL INFLUENCES ON THE SOCIO-ECONOMIC DEVELOPMENT OF MALAYSIA

Much of the present social, political and economic structure of Malaysia today can be traced back to the period of British colonial rule (Teik, 1994). That is, when Britain began to take an interest in the Muslim sultanates that forms the hinterland of the already existent Straits Settlements. This interest arose mainly because of the discovery of tin in Selangor and Perak. However, the extension of British influence in Terengganu, and Johor was more due to political factors rather than the economic ones[5]. Discovery of tin led to the migration of Chinese labourers through the Straits Settlements. The Chinese came together with their cultures, values and also their traditional factions and gangs that resulted in serious wars among the Chinese tin miners. British interventions served to dampen down those wars and law and order was restored. Railroads, roads, and other basic infrastructural facilities soon came into existence in the 'tin belt'. The Malaysian tin belt originally comprised of the federation states of Perak, Selangor, Negeri Sembilan, and Pahang in 1895 with a capital in the newly founded town of Kuala Lumpur. By 1910 a West Coast railway

[5] Under a treaty signed by British and Siam the latter released rights over the four Unfederated Malay States and in return the British relinquished their right and power over Siam (see INTAN, 1991).

joined Penang in the North to Johor Bharu at the south tip of the peninsular, with feeder lines to coastal ports and the major tin mining areas. The tin boom, which made Malaysia the world's most important tin producer, began the first wave of modern development in the country (see Gullick and Gale, 1986).

Rubber brought along the second wave of development in Malaysia. The introduction of the auto industry brought the price of Brazil's wild rubber to new heights. This led to the expansion of rubber estates outside Brazil. Rubber seeds were smuggled out from Brazil and found Malaysian soil in 1905. The highly successful introduction of this crop required more labour which the British overcame by bringing in contract labourers from India. Rubber spread the modern economy far beyond the tin mining centres. Rubber planting started from the railway lines and the roads and spread along the entire coastal plains of Malaysia. This later led to the influx of multinational companies into Malaya seeking to take advantage of the abundance of natural resources and adequate infra structure. The first MNC's to invest in Malaya were Anglo-Saxon Petroleum Company, forerunner of the present day Sarawak Shell, London Tin Corporation and Malayan Tin Dredging Group. Most sectors of the economy were dominated by the Europeans especially plantations, import-export trade, banking, finance, stockbroking and shipping.

Thus the structure of the emergent modern economy of Malaya began to take shape. It appeared that the Malays who did not participate in the new plantation and mining sector were left to their own devices in particular geographical locations. The Chinese and Indians who were prominent in tin and rubber were located in the more developed West Coast states of the peninsula. This gave rise to ethnic stereotyping. Malays were distinctly identified with padi-planting, fishing and government service, the Chinese with tin mining and shopkeeping and Indians with rubber-tapping and manual labour.

The British also introduced a Western education system in Malaysia. Starting with the first English school in Kuala Lumpur, it later spread to various parts of the country. These schools however were mainly located in the West coast towns where the Chinese and Indians are mainly concentrated. In 1957, there was not a single Malay-language high school (Tiek, 1994). Even primary schools using the Malay medium of instruction were few. The Malays were left to seek their own education through traditional religious schools. Jayasankaran (1995) quoted Sir Richard Winstead, a British author, linguist and educator in pre-independence Malaysia who wrote "the purpose of Malay education is to make them better farmers and fishermen" (p. 79).

The present-day multiracial character of the country is thus a direct result of British economic policy before the Second World War, which encouraged mass non-Malay immigration. Such policies also established distinct patterns of economic disparity between the Malay and the non-Malays due to differences in occupations and income, the differences that religious and cultural divisions tend to maintain, which later resulted in the inter-ethnic riot on May 13, 1969. Two hundred people were killed and billions of ringgit were lost not only in properties but also due to disruption of economic activity and loss of confidence by investors (Mohamad, 1995).

The racial riot of 1969 opened the government's eyes, to the fact that income disparities and the cultural gap between races must be narrowed down. To bridge this gap the New Economic Policy (NEP) in the seventies was aimed at creating the social-economic conditions for 'national unity' through massive economic redistribution programmes to achieve its twin objectives of 'poverty eradication' and 'restructuring of society' (Jomo, 1994; Intan, 1995). Some of the targets were:

- Poverty reduction from 49.3 percent in 1970 to 16.7 percent in 1990 in both rural and urban areas.
- Decline in unemployment from 7.4% in 1970 to 3.6% in 1990.
- Employment 'restructuring', with Bumiputra share in the primary sector declining from 67.6% to 61.4%, but rising from 30.8% to 51.9% in the secondary sector, and from 37.9% to 48.4% in the tertiary sector, with Chinese shares changing conversely and Indian shares at 10% to 12% in all sectors.
- 'Restructuring' of share capital in publicly-listed companies from 2.4: 34.3: 63.3 percent for Bumiputras, non-Bumiputras and foreign residents respectively in 1970 to 30: 40: 30 by 1990 (Jomo, 1994, p.32).

The 'national unity' theme was continued through the eighties. By the late eighties, the government had introduced the 'Caring Policy' which concentrates on family values and caring for one another. State involvement in social welfare has been reduced but private companies are expected to play a bigger role in helping the society as a whole. This policy has been well received by companies as evidenced by their participation in social activities, sponsorship programmes and charitable initiatives (The Star, Feb. 1990).

In 1991, The National Economic Consultative Council (NECC) produced a report evaluating the performance of NEP implementation from 1970 to 1990. The Report acknowledged the considerable achievements made especially the substantial changes in occupational distribution and poverty eradication, which has improved relations within and among ethnic groups. Shortfalls were also pointed out which include:

a) Bumiputra corporate wealth ownership targets for 1990 were not met despite much more rapid Bumiputra accumulation over the previous two decades;
b) slow progress of formal education and other problems of incompatibility between schooling facilities and human resource requirements, especially for rapid industrialisation.;
c) the credibility of official poverty data is low, publicly available information is inadequate for meaningful analysis.

On February 28, 1991, the Premier, Dr. Mahathir, announced a new national objective of Vision 2020. Apart from economic growth, Vision 2020 also concentrated on social aspects of the community and nation. Whilst the NEP envisaged progressive government intervention and a redistributive welfare role for the state, Vision 2020 shifts primary responsibility back to the family. Among its other social objectives are:

- A 'fully moral' society with citizens strongly imbued with spiritual values and the highest ethical standards.
- a culturally, ethically and religiously diverse, liberal, tolerant and unified society.
- A scientific, progressive, innovative and forward-looking society.
- A caring society with a family-based welfare system.
- An 'economically just' society with inter-ethnic economic parity.

The National Budget has consistently followed the pattern for economic and social development outlined in Vision 2020. In his budget speech for 1996, the Minister of Finance identified several policies:

1) sustaining growth with low inflation through increased savings, lowering individual income tax, reducing consumption, reducing cost of business, developing the capital market, reducing the pace of imports and developing entrepreneurs;
2) strengthening the capabilities of the service sectors by developing domestic tourism, increasing the utilisation of ports and shipping, supporting the export sector, developing information technology, a multi-media super corridor, privatisation, and promoting arts, culture and the broadcasting industry;
3) upgrading the development of human resources and technological capabilities through science and technology;
4) continuing the caring society agenda and social development by providing benefits for the rural community and the poor, building low and medium-cost housing, caring for the less unfortunate and conserving the environment.

(Jabatan Penerangan Malaysia, 1995, p.16)

2.5 ECONOMIC DEVELOPMENT

For three decades economic growth in the Asia Pacific region has been faster than anywhere else in the world (Huq, 1994), a trend that has accelerated in the nineties (see figure 2.1). The region's share of exports and imports has accelerated in tandem. Exports began to outpace imports significantly and this was accompanied by increased investment and stronger domestic consumption. Malaysia has shared in this growth.

Table 2.1: Global Growth, 1992-94

Real GDP/GNP Growth (%)	1992	1993	1994
United States	2.3	3.1	4.0
Japan	1.2	0.1	1.0
Germany	2.1	- 1.3	2.8
Europe	1.1	- 0.2	2.3
Asia-Pacific	**7.8**	**8.5**	**7.6**
Latin America	2.5	3.4	2.5

(Source: Business Monitor International, 1995)

As the region's importance in the world economy has grown, so too has it become the target of increased foreign investment, particularly from Japan, Taiwan and the US. Malaysia is seen as the logical destination for this investment, given the General System of Preferences (GSP) which it enjoys in relation to the crucial US market.

Malaysia per capita income is only surpassed in South and East Asia by Japan, Hong Kong and Singapore. With an economy that has been growing at over 8% per annum in the early 1990s, Malaysia developed strongly (see Table 2.2).

Since independence, Malaysia has been the world's largest producer of rubber and tin. Because of fluctuation of prices and declining demand, overemphasis on rubber and tin carried the risk of economic unstability. Malaysia has transformed itself from a colonial producer of raw materials into one of the most progressive and fastest growing countries in Asia with a diversified economy (Huq, 1991; Jomo, 1994). The diversification started with the First Malayan Five Year Development Plan (1955-1960) which sought to reduce dependence on rubber by introducing alternative cash crops, developing secondary industries and increasing the area of rice cultivation.

Table 2.2: Asean Gross Domestic Product and Current Account Balances

Gross Domestic Product (%) Increase	**1991**	**1992**	**1993**
Brunei	3.5	3.0	3.0
Indonesia	6.6	6.1	7.0
Malaysia	**8.7**	**7.8**	**8.5**
Philippines	- .0.7	0.0	1.1
Singapore	6.7	5.8	7.5
Thailand	7.9	7.4	7.5
Current account Balance (US$b)			
Brunei	1.6	1.5	1.4
Indonesia	- 4.2	- 3.7	- 1.3
Malaysia	**- 11.5**	**- 4.2**	**0.2**
Philippines	- 1.7	- 1.0	- 1.3
Singapore	4.2	2.9	2.3
Thailand	- 8.0	- 6.7	- 7.3

(Source: Economic Report, Ministry of Finance, 1994)

As noted earlier, the racial unrest in 1969 was the trigger for a major reorientation in economic policy and the launch of the New Economic Policy (NEP) in 1970. The rationale for the policy was to reduce economic imbalances between races and to promote national unity. It was designed to eradicate poverty and to restructure society so as to eliminate the identification of race with economic function. With increasing Bumiputra confidence and the shifting national priorities to the promotion of growth, the creation of employment and eradication of poverty, national unity could be further enhanced to enable the country to exploit its full economic potential (Gullick and Gale, 1986; Jomo, 1994; Mohamad, 1995). This potential is supported by its natural resources. Malaysia is still the world's major exporter of rubber, palm oil and tin. It is also a significant exporter of tropical timber, petroleum, natural gas and manufactured goods. Malaysia's natural resources form one of its strongest attractions for foreign investment.

When Malaysia gained independence in 1957, the country was the world's largest producer and exporter of rubber and tin. The introduction of NEP has gradually changed the dependence on natural resources. However, despite of two decades of economic transformation from colonial commodity producer to industrialised economy, Malaysia is still to some extent a 'traditional' developing country, dependent on export of raw materials and focusing on building up basic heavy industry with large state involvement.

The eighties were characterised by a continuing boom in exports of manufactured products. With the introduction of the Industrial Master Plan, commodities, which made up 94% of exports in 1965, are now a mere 13.9% (see table 2.3). Today manufactured goods constitute 78% of exports and are valued at US$75 billion (Budget Report, 1996). Since 1987 the manufacturing sector has emerged as the leading economic sector followed by the agriculture and mining sectors (see Table 2.4). Policy changes in the late eighties resulted in increasing liberalisation and sophistication in banking and financial services, privatisation and soaring foreign and domestic investment.

Table 2.3: Gross Exports by Sector

	% share			
	1970	**1980**	**1990**	**1995**
Agriculture	56.2	40.8	19.6	13.9
Manufacturing	11.9	22.4	58.8	78.0
Minerals	23.5	32.7	17.8	5.6
Others	8.4	4.0	3.8	2.5
Total	**100**	**100**	**100**	**100**

(Source: Department of Statistics, 1995)

Table 2.4: Sectoral Share of GDP, 1992-1994 (%)

	1992	**1993**	**1994**
Manufacturing	28.9	30.1	31.5
Agriculture	16.6	15.9	14.8
Construction	3.9	4.0	4.2
Mining and Energy	8.7	8.0	7.5
Services	43.8	44.4	44.6

(Source: Economic Report, Ministry of Finance, 1994)

Since the inception of the NEP, the Malaysian economy has expanded tremendously with all sectors recording output growth. Up until the severe economic downturn in 1998, Malaysia's gross domestic product was growing at 8.9% with an inflation rate contained below 4% (Bank Negara Report, 1996), and unemployment also less than 4% (see Table 2.5).

Table 2.5: Gross Domestic Product and Unemployment, (1991-1995)

	1992	1993	1994	1995
Nominal GDP (US$bn)	58.7	64.1	71.6	84.3
Real GDP Growth (%)	7.8	8.5	8.7	9.5
Population (million)	18.6	19.3	19.6	20.0
Unemployment Rate (%)	3.9	2.9	2.8	2.7

(Source: Economic Report, Ministry of Finance, 1995)

The service sector has remained the single most important contributor to GDP, contributing 44.6% of GDP in 1996, up marginally from 44.3% in 1995 (See Table 2.6).

Table 2.6: Services Sector Performance

	Share of GDP		**Annual Growth Rate**	
Sub Sector	**1995**	**1996**	**1995**	**1996**
Electricity, gas and water	2.3	2.4	13.1	12.1
Transport, store and communication	7.4	7.7	13.9	13.2
Wholesale and retail trade, hotels and restaurants	12.3	12.4	10.1	9.5
Finance, insurance, real estate and business	10.8	10.9	10.5	10.0
Government services	9.5	9.1	3.9	4.0
Other services	2.1	2.0	7.8	4.5

Source: Economic Report, Ministry of Finance, 1997

The sub-sectors within the services sector that are expected to continue to record relatively stronger growth rates are transport, storage and communication; electricity, gas and water; finance, insurance, real estate and business services as well as wholesale and retail trade, hotel and restaurants. This hints at the shift of the consumer preferences towards services as opposed to goods in line with the experience of many industrialised societies. Despite growing by more than 9 percent in recent years the services sectors is still relatively inwardlooking and depends on the primary and secondary sectors of the economy for growth. It still lacks the capacity to export services and substitute imported services, in particular with regard to freight and insurance, education and professional services, including financial services.

In 1991, the government introduced the New Development Policy (NDP) replacing the NEP. The NDP provides an ideological framework for the Second Outline Perspective Plan (OPP2), the national development plan covering a decade to the year 2000. While NEP concentrated on redistribution of wealth, the NDP now emphasises economic growth. One of its objectives is for the industrial sector to play a more dynamic role compared to services. By the late nineties, the share of the industrial sector was expected to be virtually half of the GDP (49%) followed by the services sector including ancillary and supporting services (38%) and the agriculture sector (13%) (Huq, 1995). With this changing role of the engine of growth, it is anticipated that the private sector will play a most vital role in the coming decades. Realising that its human resources will be the driving force for its success in the future, Malaysia has identified the type of workforce crucial to its goal and has specified the industries in which it wants to excel. With the NDP and OPP2 as a guideline, the Prime Minister Datuk Seri Dr Mahathir launched 'Vision 2020,' a national policy to turn Malaysia into a fully developed nation by the year 2020.

The Malaysian government's Privatisation Master Plan (PMP) launched in 1983 envisages the divestment of 246 entities by the year 2000 selling its stake in everything from the big utilities to the new highways and the country's flagship air carrier, Malaysian Airline System (see Table 2.7). Since the programme began, the private sector has successfully taken over 165 government-owned entities and proceeds from the sale of shares have brought in RM21.36 billion.

Table 2.7: Malaysia's Largest Privatisation (RM$ million)

Asset Sales	Proceeds (RM$ million)
Tenaga National	3,100
Malaysian International Shipping Corporation	1,300
Malaysia Airline System	1,300
Heavy Industries Corporation	875
Telekom Malaysia	525
Port Klang	361
Malaysian Shipyard & Engineering	227
Proton	200
Fima Holdings	190
Peremba	170
Sports Toto	113
Desaru Tourist Resort	71

(Source: Far Eastern Economic Review, 1995)

One of the main achievements of Malaysia's privatisation drive has been to improve the government's overall fiscal policy. The government has saved RM72 billion in capital since 1983. The privatisation process also has offered more hope for the easing of the nation's severe labour shortages and is helping employers hang on to their staff (The Asian Wall Street Journal, 1996). Such successes have led the government to conclude that its privatisation policy is vindicated. The government is now initiating a new phase, shifting the program's focus to capital-intensive industries and broadening its scope to include such areas as education, health, and other social services.

However, despite its rapid pace of industrialisation, the country's leadership has realised that in order for Malaysia to become a developed country as outlined in Vision 2020, coupled with the world-wide slowdown in the electronics sector in 1996, it cannot continue with conventional manufacturing industries and reliance on foreign investments. In response to this vulnerability of the economic process, primarily resulting from the global power structure being predominantly located in the West, the government has shifted its growth strategy from one of external demand-led to one of domestic demand-led (Huq, 1995, p 3).

Investment in infrastructure echoes the ambitions of the new Technology Action Plan. Premier, Dr. Mahathir's idea for a 15 X 50 kilometres Multimedia Supercorridor (MSC) linking Kuala Lumpur, the new Sepang airport and the new administrative capital of Putrajaya embodies an imaginative approach to Malaysia's future as a technologically advanced country.

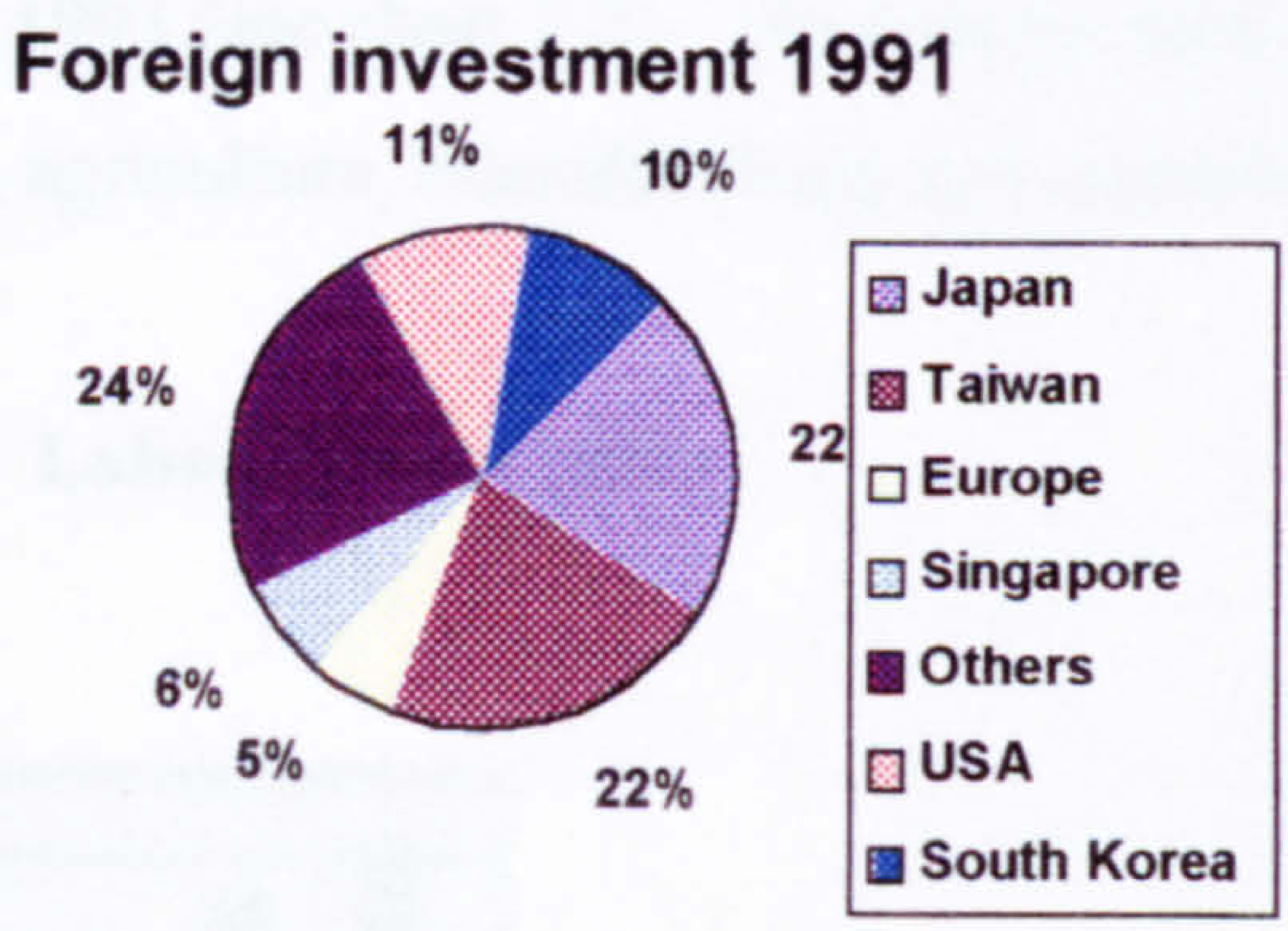
Malaysia has proved that it can successfully create new industries, for example in automobile production. With full government backing and attention, Proton, the local manufacturer of Malaysia's national car increased its domestic market share to 74% in 1994. Besides Proton, the second national car project, the Perodua is under way and in production. Renault and Citroen's joint venture as the third and fourth manufacturer in Malaysia are also on stream.

Malaysia has a flourishing stock market, ranked as one of the biggest in South East Asia, with a market capitalisation of over RM565 billion. As Malaysia's stockmarket grew in importance in the region, several measures were implemented in 1996, for example, a scriptless market and open door policy to attract world-class investors. The stockmarket remains a vital source of long-term funding for Malaysian corporations. In addition, Malaysia launched Southeast Asia's third equity futures market in 1995, the Kuala Lumpur Options and Financial Futures Exchange. The country's financial sector believes it can no longer afford to take an isolationist view concerning its capital market, as it strives to compete in an increasingly competitive marketplace, where liberalisation of trade and services is gaining momentum. Thus Malaysia launched the Malaysian Monetary Exchange (1997) for currency and money market derivatives. With an active foreign exchange and capital market, it has drawn foreign direct investment of some 50 billion ringgit since 1990, and has in the pipeline a number of massive multi-billion dollar infrastructure projects, for example the new Kuala Lumpur Airport and the government city of Putra Jaya.

While preparing itself for the industries of tomorrow, Malaysia has not neglected current issues and challenges faced by existing sectors, namely in the financial and telecommunications market. In the telecommunications sector, a liberalisation policy is underway. One high-technology industry in which Malaysia has achieved competence is mobile telephones. It started with the privatisation of Telekom Malaysia in 1991 and the issuing of several telecommunications licences by the government in 1993 and 1994.

Overseas expansion by local companies has been mirrored by a renewed surge of direct investment in Malaysia itself as foreign multinationals compete for a share of the booming domestic consumer market. As a result of the recession in 1985-86, the Malaysian Government increased its efforts to stimulate the private sector, especially foreign investment and export led growth. By 1992, resident share ownership had risen to 32.4 percent. In 1992, the Malaysian Industrial Development Authority (MIDA) approved 608 foreign investment projects concentrating on manufacturing (RM 5 billion), Petroleum and Gas (RM 11 Billion) and services (RM 1 Billion). Asia has led the investment boom in Malaysia, with Taiwan, Japan, Singapore, South Korea and Hong Kong, along with the US, committing substantial funds to their Malaysian operations (see chart 2.1). European companies have generally been slower off the mark but they too are being actively courted by the Malaysian government, which faces strong competition from other emerging economies in the region.

Chart 2.1: Foreign Investment 1991



Source: Ministry of Finance, 1994

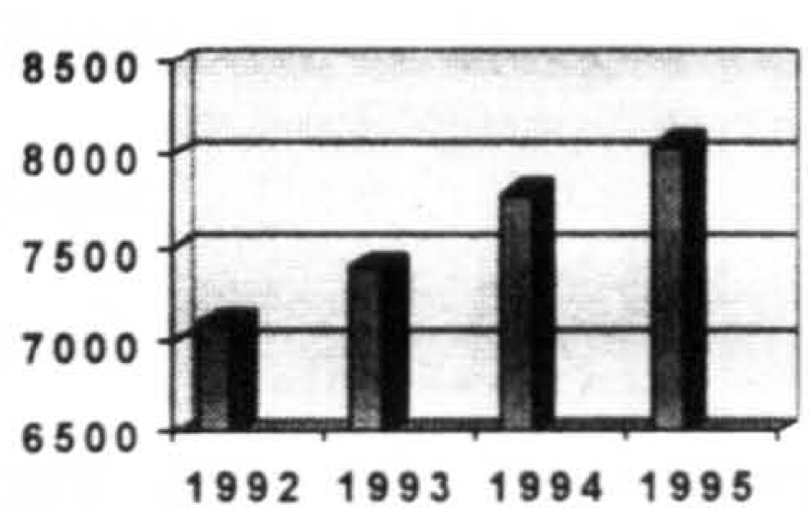
To retain its competitive edge at a time when the country is competing for foreign investment with other locations in the region, especially China, India and other South East Asian countries, Malaysia has to equip its workforce with requisite skills. Also to assure the country's overall objective of industrialised nation status by the year 2020, Malaysia is poised to become the region's education centre. In line with its human resources requirements, the country has pushed for a technology-based skill drive to support Malaysia's move towards hi-tech and productivity-driven industries.

Whilst economic development remains a priority in achieving this goal, Malaysia's overall objective is to create holistic development through social justice, enhancement of knowledge, intellect and character, as well as enrichment of its culture. This is being done by implementing policies, which include fiscal, financial and administrative measures to stimulate growth, as well as policies to assure social equity and harness human resources to master new technology.

2.6 EMERGING STRAINS

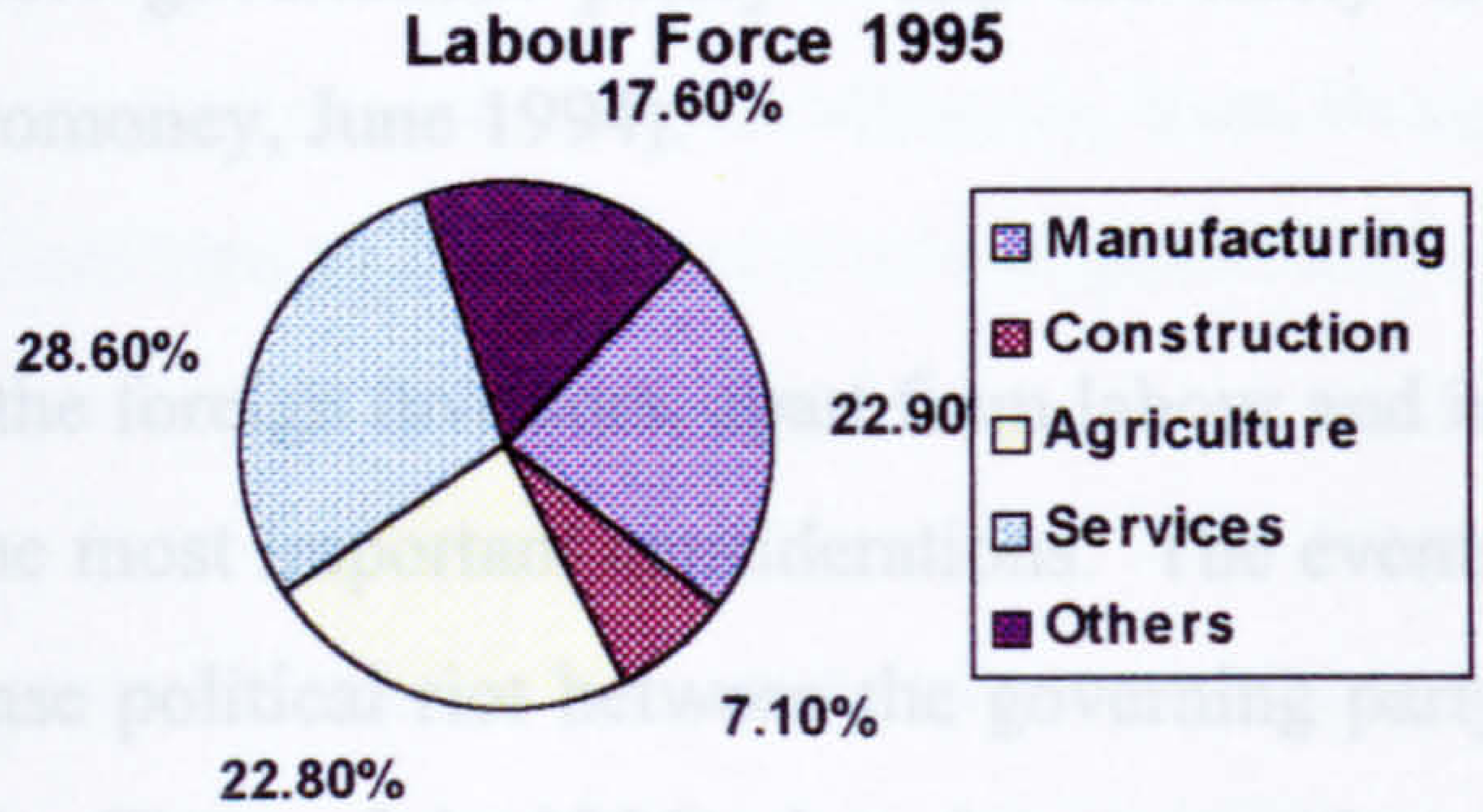
Malaysia's economy is largely investment driven. A question, which arises now, is whether its current levels of growth can be maintained. Already the economy has shown signs of strain. Top of the list is the severe labour shortages. The problems have been felt most in the manufacturing and construction sectors. Malaysia's total labour force in 1995 was 8.06 million, an increase of 2.7% from 1994 which increased 2.9% from 1993 (see chart 2.2). On a sector basis, labour distribution is concentrated in services, agriculture, manufacturing and construction (see chart 2.3).

Chart 2.2: Labour Force (000)



Source: Ministry of Finance, 1994

Chart 2.3: Labour Force 1995



(Source: Ministry of Finance, 1994)

With nearly full employment, the Malaysian government has had to recruit foreign workers to fill labour shortages. An estimated 100,000 Bangladeshis are currently employed in Malaysia, but the country needs about 1.3 million additional workers and technicians to work in hospitals, manufacturing and construction in order to meet present demand. Emigrants mainly from Bangladesh and Indonesia are continuously recruited to alleviate acute labour shortages in the plantation and construction sectors. Estimates of the immigrant population's true numbers vary widely, but one million foreigners are thought to be working illegally in Malaysia, in addition to the further one million foreigners who are legally registered. The lack of skilled workers is preventing companies from moving into technologically more advanced industries. To narrow the technological gap, the Ministry of Education encourages twinning of Malaysian Universities with foreign universities, to increase the university places available.

Compared to most of its neighbours, Malaysia already has an impressive infrastructure. Despite this, the economy is now dangerously close to overloading the infrastructure, which is another sign of strain. Roads, telecommunication and air travel threaten to develop bottlenecks. The industrial development in the last few years demands huge investments in infrastructure to prevent such an occurrence. However, more than any other sector, construction is subject to the flow and flux of Malaysian foreign policy. Although the government tries to keep private companies or financial institutions out of its foreign agenda, things could be different in reality; companies influenced either by state shareholdings or sentiments of political support, or by the extent of their business relations with the government, are those likely to support government policy - and are likely to benefit from giving such support (Euromoney, June 1994).

For the foreign investors, apart from labour and infrastructure, political stability is one of the most important considerations. The events in Indonesia in 1996, including the intense political riot between the governing party and the opposition party (see New Straits Times, July 1996) alerted many to the risks which remain in some parts of South East Asia. Dr. Mahathir's convincing win in 1995 general election was proof enough however that the ruling party, the National Front, has currently a firm grip on electoral politics in Malaysia.

Apart from labour and economic strains, environmental and social strains have also begun to appear. Some interesting contentions brought up by the NECC report are that in an attempt to raise productivity, long-term consequences have not been considered especially the lack of attention given to the environment and resource availability. For example, the effect of trawling on the fishery, of the Green Revolution on soil fertility and logging on the environment. The Report also identified several social ills that have plagued the country, which include drug abuse, corruption, crime (especially white-collar crime) and moral decay.

2.7 SOCIO-ECONOMIC SIMILARITIES AND DIFFERENCES WITH THE WEST

Malaysia's vision is to become a developed country by the year 2020. In pursuing that vision, government policies followed a consistent pattern for social and economic development. The shifting of dependence from raw materials to manufactured goods, the shift of consumer preferences towards services as opposed to goods, the privatisation of public utilities, the focus on research and development, and a flourishing stock market all suggest that Malaysia is following in the footstep of developed western nations. For example, Malaysia is adopting the US style of protecting customers from being overcharged as well as from unsafe and useless products, including drugs via a Food and Drugs Administration and Consumer

Products Safety Commission. Product safety in Malaysia is closely monitored by SIRIM, a now private body, who issues ISO 9000 certificates to manufacturers. Consumers' associations in Malaysia, even though they are not as aggressive as in the US, are also playing a major role in protecting customers from being overcharged and determining product quality.

Employees for their part are becoming more aware of their rights. Even though strikes are rare (the last major strike was in 1992, by Tenaga Nasional Berhad middle and lower level employees, the only energy supply company in Malaysia) the labour unions have managed to persuade more companies to take care of their employees benefit. Settlement of disputes between workers and employers are seldom through industrial confrontation, but through a third party (generally Government intervention) making the judgement as to the demand being justified or not (Mohamad, 1995). Mohamad (1995) stated the Malaysian policy for workers should always be fair reward for fair work that is wage rises must be linked with productivity. Human resource development is particularly stressed by many companies (Jomo, 1994).

Malaysia is a federal democracy with a constitutional monarch. The present constitution with a parliamentary and cabinet system, which closely models Westminster, is headed by the Perdana Menteri (Prime Minister). Malaysia has also adopted the UK judiciary system where the Supreme Court is the highest authority with the power to interpret the constitution and to adjudicate in disputes between states or between states and the federal government. Most Malaysian laws are also adopted from the British, perhaps most significantly, Labour law and Company law. Equally, when it comes to the environment, the law is the natural enforcement mechanism. Currently, the government has opted to control pollution through specific regulation and supervision, for example the Environmental Quality Act, Environmental Impact Assessment etc. Thus firms are required to erect specific kinds of waste disposal plants or to achieve a specified level of water quality in the discharging of water into a lake or river. But unlike the UK, enforcement of law is minimal and contradictory government policies have not helped either. For example, on the contradiction of states, even though Federal government bodies set the law states bodies may overrule if pertaining to state land. For example, on the question of approving mangrove clearing, the Fisheries Department noted: We have said no to ponds in the mangroves but the states still approve applications. We have no jurisdiction over state land, and the states do not always seek our views (see The Star, April 1996).

Even though Malaysia is following in the developed countries' footsteps, there are still a lot of differences between the two such as economic development and practices, religious beliefs, culture and social values. Major economic developments in the US and the UK were the result of the industrial revolution. The Malaysian economy on the other hand developed as a result of European expansion and in particular British colonialism. Even though Malaysia is no longer under European influence economically she is still dependent on world economic trends and threatened by the development of economic regionalism in Europe and North America. To counter this Malaysia initiated the East Asian Economic Caucus (EAEC), an exclusively Asian economic group and ASEAN which is aimed at developing the economies, social structure and culture of its members.

Although Malaysia practices an open economy, it has adopted a more selective approach to the influx of foreign firms. It is different from the US where foreign firms are given total freedom of entry. Malaysians feel that such a liberalisation would be premature and against Malaysia's national interest. Government policy plays an important role in the Malaysian economy. Malaysian's foreign policy goals continue to be influenced by trade considerations, with attention remaining firmly focused on East Asia.

Religion (see Ryan, 1971; Sadeq, 1990) and eastern customs and values (Gullick and Gale, 1986) teach Malaysians to be reserved, humble and modest as compared to the US or UK where the people are more aggressive and assertive. Islam and its laws govern the Malays' life, but are less dogmatic than those practised in West Asia, and allow Malays to coexist with their non-Islamic compatriots. They normally live in a closely-knit community of villages or 'kampongs' where life revolves around the local 'surau,' or the village mosque. Islam teaches its followers to do good deeds but prohibits boasting about it. For example, giving alms is encouraged but informing others of such action is against the Tauhid[6].

> *O you who have attained to faith! Do not deprive your charitable deeds of all worth by stressing your own benevolence and hurting (the feelings of the needy), as does he who spends his wealth only to be seen and praised by men, and believes not in God and the Last Day: for his parable is that of a smooth rock with (a little) earth upon it – and then a rainstorm smites it and leaves it hard and bare. Such as these shall have no gain whatever from all their (good) works: for God does not guide people who refuse to acknowledge the truth* (Qur'an 2:264).

> *And (God does not love) those who spend their possessions on others (only) to be seen and praised by men, while they believe neither in God nor in the Last Day; and he who had Satan for a soul-mate, how evil a soul-mate has he!* (Qur'an 4:38).

In many ways the eastern cultures are different from the West. Westerners consider the trait of pride, boldness, aggressiveness, achievement, frankness and familiarity to be assets. While this may be true in some parts of the world, it is just the opposite in the East. The virtues of humility, reserve, modesty and consensus are more greatly admired and respected. The Chinese and Malays for example, are modest in speech and rarely boastful. Even in speaking about their children or possessions they will talk in a deprecating manner.

Westerners often speak on a deep personal level. They strive for openness in their relationships with others. Because of this desire to reveal themselves to those they care about, they speak freely of their emotions, feelings, and personal experiences. This is acceptable and even desirable in many Western cultures. However in the Asian culture, much value is placed on reserve. Even in close relationships it would be

[6] Tauhid determines actions, which is the fundamental principle of the Islamic faith. By the principle of Tauhid, study of action includes those actions towards God, fellowman in family and in society. If doing a good deed is for an unselfish reason then Allah credits it. Therefore, doing good deeds is encouraged but disclosing such actions is frowned upon.

embarrassing to discuss matters of a personal or intimate nature. The open, direct and straightforward approach is seen as admirable to many Westerners. However, here in the East, if one opens oneself, it is thought to be a sign of weakness or cowardliness. It is seen as humiliating to reveal your inner being. The one who 'opens' is not to be trusted. He tells secrets. Chinese culture is well known for its modesty. For example, a businessperson when asked about his business will almost certainly reply with 'just enough to survive'.

Apart from religious beliefs, there is a vast cultural, local customs and courtesies difference between the East and the West. Asian cultures are much more formal and traditional than the Western cultures. Asians appreciate and respect preliminaries and form. The Easterners often measure the importance of a deal by how much formality surrounds it, and how many preliminaries lead up to it. Westerners often make decisions in an atmosphere of informality, giving little time for preliminaries. Westerners often want to get straight to the heart of the matter, feeling that formality wastes time and money. In the Western culture, it is good manners to walk into someone's home with your shoes on, it is considered friendly to shake hands with all people of both sexes whom they meet, it is permissible to give objects with either hand; it is often a normal social friendliness to hug or kiss the host or hostesses when entering or leaving their home. In Malaysia all these customs are taboo in one or more of the different ethnic groups.

The above factors (labour, economy, religion and culture) will have some implications towards corporate social disclosure. The next section will seek to examine the influence of various factors on corporate social reporting and will explore the respective influence of key groups including companies, government and market forces.

2.8 SOME IMPLICATIONS FOR CSR

Post 1990 policy, with its renewed emphasis on growth, industrialisation and modernisation, aims to bring Malaysia developed country status in the next millennium. This emphasis together with its potential dangers has implications for corporate social accounting and reporting particularly on labour, environmental and community issues.

Malaysia's current commitment to export-led growth has been interpreted as requiring a low wage policy in the interest of international competitiveness. With the current labour shortages, increased productivity is a crucial issue. Human resource development is a necessary condition for raising labour productivity. Additionally, relatively few workers in the manufacturing sector are unionised, and the trend has been towards greater casualization of work, rather than job security (see Jomo, 1994). The NECC report recommended the improvement of workers general welfare, particularly that of children and women, as well as the encouragement of trade unionism to protect workers interests. Limited labour resources and increased productivity may clearly have an impact on the amount of human resource information in the annual reports.

Rapid development has also resulted in the deterioration of air and water quality. A Department of Environment (DOE) study (1993), showed that out of 116 rivers surveyed in Peninsular Malaysia, only 27 percent were pollution free while the others were either 'biologically dead' or 'dying'. Another DOE study showed that air quality in Klang Valley, the country's most industrialised zone which includes Kuala Lumpur, would significantly worsen by the year 2005 if nothing were done. Indeed, the community has gone public about their grievances to the media and is pressuring the private sector to provide information to a wider audience about their activities and to be accountable for their actions (The Leader, March 22,1996). The consumer associations and other pressure groups, for example, the Sahabat alam Malaysia have been quite vocal in expressing their views (see The Star, April 9, 1996). The privatisation scheme has also raised issues of control and accountability of monopolistic organisations operating in sensitive areas. The DOE on the other hand has succeeded in getting the companies to recognise the importance of Environmental Impact Assessment (EIA) studies. Also, the DOE has made EIA compulsory for companies undertaking projects on hill slopes. Additionally, development also could unintentionally create problems like depletion of natural resources, such as timber, that could have implications for CSR practice.

The evolution of accountability and information disclosure discernible in corporate reports has been largely a function of the growth of an active and well-developed stock market. With its increased size, the Capital market plays a vital role in the development of the Malaysian economy. But as the country's capital markets are opened up to foreign investors, market performance is increasingly driven by external factors. Local investors are not as sophisticated as those are in the US or Western Europe where investors are guiding companies towards disclosing information relevant to their needs in making decisions. The influx of foreign investors in the Malaysian market may well influence the type and amount of disclosure by Malaysian corporations. Perhaps most significantly, issues of socially responsible and ethical investment may come to achieve similar prominence as they do in the west.

The eastern cultures and values also teach the public to be close to nature and have concern for the environment. Animism was the earliest belief of the Malay and the Indians. One of the most important aspects was the belief in '*semangat*' or 'vital force' which exists in both men and things. All things, it was believed, have *semangat*, from particular objects, such as certain trees or rocks. The teachings of Islam also encourage men to take care of the environment.

> *(Since they have become oblivious to God,) corruption has appeared on land and in the sea as an outcome of what men's hands have wrought: and so He will let them taste (the evil of) some of their doings, so that they might return (to the right path)* (Qur'an, 30:41).

Religious belief could, on the one hand, be a major influence in the increase of social information disclosure. On the other hand religious belief could also be a deterrent in social disclosure because many Muslim believe that one should not boast or make public what one has given for fear that their good deeds would not be rewarded by Allah. The pursuit of modernisation and economic success also could have opposing effects on disclosure. Modernisation and economic success have diminished some traditional cultures and values especially in the city where family and community values are disintegrating and concern for the environment is almost non existent.

Malaysians are rapidly modernising and industrialising. Some of the younger or 'more modern' elements are adopting 'Western ways'. Some of them, unfortunately, are losing touch with their own customs and cultures. The Malays seem to be teetering between the desire to assert their rights and arrogate to themselves what they consider to be theirs, and the overwhelming desire to be polite, courteous and thoughtful of the rights and demands of others (Mohammad, 1980). These cultural factors could dampen corporate social reporting.

With the growing similarities between Malaysia and the West, one would expect the pressures for corporate social responsibility and reporting might be the same. However, Malaysia is a unique developing country with a multi-racial society, different cultures and religions. These differences have a great effect on corporate social responsibility and reporting. Therefore, Western approaches to corporate social responsibility and reporting may not be followed. There is a clear difference and tensions between traditional values and Westernisation. Differences in economic growth patterns and religious and cultural values indicate that there may be uncertainties in the development of corporate social reporting. Therefore despite active participation in social activities, this could explain why many Malaysian companies are not disclosing their actions as much as their US and UK counterparts.

2.9 CONCLUSION

Malaysia is aiming to be a newly industrialised nation by the turn of the century and a fully developed nation by the year 2020. To achieve this objective Malaysia is turning towards selected foreign investments, high technology industries, broadcasting and developing the equity market. With its current economic growth, Malaysia's objective is achievable. Whilst pursuing rapid economic growth, the government is not neglecting traditional cultures and social values.

Malaysia whilst still a developing country is following the footsteps of many developed countries. European influences, particularly from the UK, have exposed Malaysia to the British system of government, politics, judiciary, administration and education. Economically, Malaysia practices an open economy which mirrors those of the US and UK. Similar to the developed countries, economic and social strains are also showing as a side effect of development. This has led to rising public expectations and calls for corporate accountability and disclosure especially on the environment and community issues. Apart from economic development, the government's emphasis on social development such as eradication of poverty, national integration, creating a caring society and the emphasis of Islamic values in all aspects of life has implications for corporate social reporting in Malaysia. As a result of the rapid growth of capital markets, influx of foreign investors, increasing environmental awareness and traditional values, more Malaysian companies can be expected to disclose social information.

Cultural and religious practices differ greatly between the East and the West. Religious belief could both be a positive and negative influence over corporate social disclosure. On one hand religious beliefs such as Animism and Islam encourages its worshippers to take care of the environment, and hence might be expected to exert a positive influence on social disclosure, while on the other hand it discourages many to disclose for fear that their good deeds will not be rewarded. The Malays consider religion as an important part of their lives and believe that boasting is against 'Tauhid'. While pride, aggressiveness, achievement and frankness is a virtue in the West, humility, reserve and modesty is greatly appreciated and respected in the East. The Chinese for example still believe that those who 'open' themselves cannot be trusted and would indeed discourage them from disclosing social and environmental information. While some cultural and religious factors may encourage social disclosure, most would dampen the interest of companies to disclose. Although there are some similarities between Malaysia and the West, the differences, particularly appertaining to religious beliefs, cultural and other values give rise to many uncertainties in the development of corporate social reporting.

CHAPTER 3

FINANCIAL AND CORPORATE SOCIAL REPORTING

3.1 INTRODUCTION

Accounting has typically been concerned with providing economic information for entities having a present or future economic relationship with the business enterprise. Over the past two decades there has been an increasing acknowledgement that financial providers are not the only group affected by the actions of the corporations. The 'wider public', for example, employees, trade unions, government agencies and the general public are also affected by the actions of the corporations. Regardless whether or not an individual or an entity has an economic relationship with the enterprise, it is clear that the enterprise's existence and the externalities it produces have an effect on all society (see, for example, Thomas, 1981; Laughlin, 1981; Cooper and Sherer, 1984; Tinker, 1984 and 1988; O' Leary, 1985; Hines, 1988; Gray et al 1996). Society therefore should be provided with the information necessary for evaluating each enterprise's net contribution to social welfare.

Information disclosed by corporations is influenced by a variety of economic, social, and political factors. The political system and type of economy, the stage of economic development, the social climate, the legal system, management structure of corporations, the nature and stage of development of the capital market and cultural factors are all important issues which determine the extent to which information is publicly disclosed (see, for example, Dierkes, 1972, 1973; Bartholomaii, 1973; Eichhorn, 1974; Gray, 1988; Perera, 1989).

Interest in corporate social reporting has waxed and waned according to time, economic and political factors (Gray, et al., 1987). Theme of disclosure also changes by time and is country specific. For example, in the US, research studies have been clearly focussed on the relationship between social (or environmental) performance and disclosure and economic performance (see, for example, Freedman and Jaggi, 1988; Belkaoui and Karpik, 1989), whereas in Western Europe research studies have addressed employees and environment (Brockoff, 1979; Adams, Hill and Roberts 1995; Gray et al, 1995a). Despite the long history of research into corporate social disclosure practice very little attention has been focused on developing countries.

The purpose of this chapter is to explain the development of corporate social reporting and how it implicates the Malaysian environment. This chapter will initially explore the need for corporate social reporting by looking into the development of financial reporting, its objectives and the role of changing public expectations. It will then proceed to describe the current state of play and patterns of disclosure of corporate social reporting in developed countries and how the socio-political and cultural environment affects the development of corporate social reporting. The chapter will finally describe previous studies conducted in Malaysia and try to establish how Western developments may have influenced Malaysia.

3.2 CORPORATE FINANCIAL REPORTING

Company financial reporting began modestly in the early nineteenth century with a listing of balance sheet items designed to justify the legality of a company's dividends for the benefit of its bankers and creditors. It has, however, in a relatively short period of time, moved from over-simplified balance sheet listings, to complex inter-related financial statements aimed at satisfying the information needs of a variety of persons interested or involved in a company's financial affairs. Over the years the amount of disclosure in the financial report has increased. As the amount of disclosure in the financial report increases, the need to understand the objectives of financial reports and how to achieve them is crucial. To appreciate the essence of financial reporting it is necessary to glance at the objectives of corporate reporting and its development.

The needs of report users is considered one of the major reasons for increased disclosure (see Kenley and Staubus: 1972). Their need for information has pressured the organisation's top management, accounting profession and the legislature to increase the amount of information in the financial statements. Though there is general agreement that financial reporting must be useful there is, however, little agreement about objectives and the means to achieve them.

These disagreements may be due to several reasons:

1. Uncertainty. Even when considering information for specific purposes, there are considerable difficulties in establishing what is actually useful.
2. Variety of needs. Different users will have different needs for accounting information depending on the situations and decisions they face, their level of understanding and the alternative sources of information available to them.
3. Conflicts of interest. The different individuals and groups involved with financial reporting, whether as users or preparers, often have conflicting economic interests.

Accounting records were initially developed to serve the needs and interest of capital owners. However, the development of capital markets and the recognition of corporations as legal entities with the public ownership of shares and the right of limited liability was the major influencing factor for the development of financial disclosure in the US, UK and other market economies. Perks (1993), explained that the growth of economic activity in the UK and US took place within a classical liberalism atmosphere. While economic growth began earlier in the UK, in the US economic growth began to gain momentum in the middle of nineteenth century. To promote a company's growth, it is necessary that financial statements display earnings figures that attract potential investors (Abel, 1971). Since the main source of funds for investment is from capital market activity, the pressure for disclosure had a significant effect on the development of financial reporting and disclosure patterns.. Limited liability also distinguished the company and the owners. As many of these owners are not directly involved with the running of the business, it is essential for their protection that they should have access to information on a regular basis. There is a close relationship between the development of the limited liability concept and the production of financial statements.

The American Accounting Association for example, accepted this stand by defining the purpose of financial statements only as a stewardship function:

"... the expression, in financial terms, of the utilisation of the economic resources of the enterprise and resultant changes in the position of the interest of creditors and investors. Accounting is thus not essentially a process of valuation but the allocation of historical cost and revenue to the current and succeeding periods" (AAA.,1936).

This approach appears to be supported by the Institute of Chartered Accountants in England and Wales. In its statement, *'Accounting in relation to changes in the purchasing power of money'*, it is noted that *'The primary purpose of the annual accounts of a business is to present information to the proprietors, showing how their funds have been utilised and the profit derived from such use'* (1952, page 1). Whilst similarly the statement, *'Accountants Liability to Third Parties'* notes *'The object of the annual accounts is to assist shareholders in exercising their control of the company by enabling them to judge how its affairs have been conducted'* (1965, page 2).

As a consequence of limited liability and the rapid development of capital markets, creditors only have limited claims to the corporation's resources in the event of liquidation. Coupled with company directors' reluctance to disclose more than the minimum information required by law, the creditors are in an agonising position as to decide whether to commit their resources to corporations. Therefore, the objective of financial reporting has to be extended. The intervention of law, Companies Act 1948, gave rise to an extension of disclosure requirements designed to aid creditors in determining the extent to which they are prepared to commit resources to the company. Additionally, the rapid development of the capital market was another major reason for financial reporting to become decision usefulness driven. Carsberg, Hope and Scapens (1974) state that while the traditional stewardship objective of accounting remains widely acknowledged as important, there appears to be a growing consensus that the provision of information to assist shareholders with their investment decisions should be recognised as a second important objective of financial reports. Kenley and Staubus (1972) concluded that the aim of financial reporting is to provide information about the economic affairs of an entity for use in decision making, and predicting the entity's future cash flows should have top priority for financial accounting. The debate about the objectives of financial reports has moved from a focus on the stewardship function to a much more sophisticated discussion of investors' information needs for decision making. It is argued that the existence of an active market necessitates the publication of financial information for share-trading decisions by shareholders and potential investors. While the stewardship objective is still maintained, decision usefulness is injected as an extension of financial reporting objectives. However, decision usefulness of information provided thus far is considered as focussing on the needs of capital providers as evident by the AICPA's 'Trueblood Report'. The 'Trueblood Report', a report on the objectives of financial statements specified twelve objectives and seven qualitative characteristics of financial reporting. The key objectives are:

- to provide information for **making economic decisions**;
- to primarily serve users;
- to provide information **useful to investors** for predicting, comparing and evaluating enterprise earning power;
- to supply information useful in judging management's ability to utilise the enterprises' resources effectively in achieving the primary enterprise goal.

The early seventies saw an increasing interest by academic and practising accountants in the impact and influence of accounting information on people and the emphasis in research gradually switching away from the traditional area of the accounting process (see, for example, Lee, 1971; Falk; 1972; Carlsberg et al, 1974; Lee and Tweedie, 1975). As the degree of public interest in corporate affairs rose, and also because of the equivalent development of capital markets and investment communities, company financial statements came to have a varied readership (Lee, 1971). Countries with active and well developed markets especially the US and UK have a greater extent of public financial disclosure than those with relatively inactive ones, for example West Germany, France, Italy etc (Gray 1984). Gray (1984) suggests that the growth of the stock exchanges and activities of financial analysts could be the reason why objectives of financial statements become decision usefulness driven. The growth of stock exchanges necessitated the expansion of information to potential investors. As most of the potential investors are not capable of analysing financial statements, they require the services of financial analysts. Financial analysts who will make interpretation on behalf of investors will need to have access to this information. The information needs of financial analysts and investors have spurred corporations to increase both the quality and quantity of their disclosure. Financial statements are being conceived more and more specifically in terms of users and user needs.

In response to these new needs, the Financial Accounting Standards Board (FASB) produced the Conceptual Framework, starting with the Statement of Financial Accounting Concept 1, which described the objectives of accounting as:

- Financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions. The information should be comprehensible to those who have reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence.
- Financial reporting should provide information about the economic resources of an enterprise, the claims to those resources, and the effects of the transactions, events, and circumstances that change its resources and claims to those resources.

Generally, the Trueblood Report and the FASB held that the purpose of the financial reporting is to provide economic data concerning enterprises. The FASB have argued that financial reports should serve the interest of users in aiding the prediction of the amount, timing and uncertainty of future cash flows of business enterprises

The Accounting Standard's Board in the UK defined the objectives of financial statements as more decision usefulness driven. Though still narrow in view, the new definition emphasised the importance of information in the financial statements as a tool for decision making and went a step further in recognising the wider range of users of financial statements. The Accounting Standards Board (1991), stated that the objective of financial statements is;

> "*... to provide information about financial position, performance and financial adaptability of an enterprise that is useful to a wide range of users in making economic decisions.*"

Thus far, accounting has provided information regarding the financial position, earnings and financial activities of the business in response to the needs of those with a direct financial investment. Social information is still absent. This is partly due to;

- the implicit assumption that the economic performance of the business is legitimately separable from the rest and,
- users of corporate reports, particularly investors, are deemed to be interested only in financial market performance measurements and their accuracy.

The objective of financial reporting appears to restrict itself to the relationship between companies and a set of stakeholders, particularly the investors and capital providers. Financial reporting objectives also appear to accept the narrow view of a business entity governed by legal regulatory influences rather than that of an enterprise acutely aware of its social responsibilities and the relationship of enterprise goals to social goals. The companies over dependence on company law as a custodian of business with emphasis on reporting profit had made financial reporting rigid and static. A business goal is far more than that. A business has an obligation to society, to be socially aware of the effect of its operations on society. Others users, for example, employees, trade unions, consumers, government agencies, are also affected by corporations' activities and are interested in information other than economic. While the information needs of shareholders, creditors and government are more adequately met, the needs of these latter groups have traditionally received little attention.

Communities for example, are very dependent on local industries, not only because they provide employment, but also because they directly affect the entire socio-economic structure of the environment. Corporations have positive as well as negative influences on the community. While employment, welfare services and improved quality of life are some of the positive influences of the corporation on the community, pollution and congestion are examples of negative aspects of their activities that constitute external direct and indirect social and economic costs, which are borne by the community. Additionally, corporations are becoming more powerful, especially monopoly corporations, which can inflict price rises on the consumer without mercy. However, consumers are becoming more sophisticated and demanding information on fair pricing policies, product safety or environmentally sound products. This is evident in the growth of consumer associations and other bodies. Even though the consumers individually may not have a big influence in the market, their collective voice through consumer associations and other bodies could redress the imbalance of power.

The community, consumers and the public therefore have interests in the activities and policies of corporations. They require more information on social benefits and costs rather than just economic figures currently disclosed which gives rise to the need for corporate social reporting.

3.3 THE NEED FOR CORPORATE SOCIAL REPORTING

Financial reporting is not only about measurement of economic income but also about discharging accountability. Apart from financial information, businesses also have the responsibility to furnish other information necessary for decision making to those who have reasonable rights to such information. Thus, corporations are no longer simply organisations designed to make money for their shareholders. They are now accountable for the ways in which they might make this money. As companies grew and became more powerful in the eyes of society there were calls for companies to be made accountable to a wider public. Over the past decades, there has been growing concern about the accountability of the vested and powerful multinational corporations (Gray, 1984). With the influence of large complex organisations, societal demands for corporate information are getting more urgent. Globally, large corporations have also become more aware of their relationship with societal interest groups and their corporate social responsibilities (Heald, 1970). Crises like oil spills, destruction of the environment, unemployment, poverty, and to some extent, pressures from users of financial reports have influenced businesses to disclose information on the human resource, environment, social participation and product.

The trigger to be accountable to a wider audience in the United Kingdom perhaps could be the result of the 'Corporate Report'[1]. A sub-committee appointed by the Accounting Standards Steering Committee (ASSC) was given the task of re-examining the scope and aims of published financial reports and in 1975 published a report *'The Corporate Report'*. A very important document, wide ranging and at times progressive, the 'Report' goes further than Trueblood by summarising that:

> *"The fundamental objective of corporate reports is to communicate economic measurements of and information about the resources and performance of the reporting entity useful to those having reasonable rights to such information."* (p. 2)

In the light of modern needs and conditions, the 'Report' is concerned with the public accountability of economic entities of all kinds, especially business enterprises. The involvement of accountants in the process of accountability was originally concerned mainly with the accountability of directors to shareholders and of the companies to creditors. As companies came to be seen as increasingly powerful in society there were calls for companies to be made accountable to the wider public. Paragraph 1.3 in the Corporate Report suggests that:

> *"The corporation has a responsibility for the present and the future livelihoods of employees, and because of the interdependence of all social groups, they are involved in the maintenance of standards of life and the creation of wealth for and behalf of the community"* (page 15).

The report also identifies and defines the key user groups, such as equity investors, loan creditors, employees, analysts and government, and the need to satisfy their information needs (see Corporate Report page 17-26). Basically, the philosophy of the report is public accountability. The report took the view that it was the implicit responsibility of every economic entity of significant size or format to report publicly without being obliged to by law or regulation. Corporations are supposed to discharge

[1] This development may have limited applicability elsewhere, notably the US.

their accountability ethically and not because of something that should be done simply due to requirements of law or some regulatory body.

Reinforcing the 'Corporate Report', 'Making Corporate Reports Valuable' (MCRV) produced by the Scottish Institute Research Committee (1988) was aimed at improving the quality of measuring and reporting corporate activity. Also considered as a radical document, some of the proposals by the MCRV are that companies should give information about the economic environment in which they operate, a statement on employees and future prospects in order to improve the quality of their corporate reports.

The pressures for accountability are coming from a number of sources, for example, the growing number of pressure groups, ethical investors, consumer associations, and the growing number of United Nation and European Community Directives (Gray et al 1988). Gray et al. (1988) identified several reasons why there is an obligation to report to a wider audience of the general public, for example:

1. The development and growth of the influence of trade unions in most developed countries.
2. The increase in the demand for greater recognition of the view that those who are significantly affected by decisions made by institutions in general must be given the opportunity to influence those decisions.
3. The potential gap between private gain and social gain has become a source of public concern, especially in relation to so-called 'externalities', e.g. pollution.
4. The substantial growth in industrial concentration has meant that some corporations are now large enough individually to exert influence on macro-economic variables and national economic and social policies.

In a world of increasing specialisation and complex business and societal relationships, the demands and driving forces for greater social and economic justice will increase. Therefore, accounting practitioners and educators can no longer continue to treat the traditional stewardship objective as the accepted norm. The predominance of financial accounting and reporting models based upon the economic consumer sovereignty principle and its presumptions needs to be reassessed. In the eighties great attention has been given to the scientific methodology of value issues underlying accounting (see, for example; Thomas, 1981; Laughlin, 1981; Cooper and Sherer, 1984; Tinker, 1984 and 1988; O' Leary, 1985; Hines, 1988).

Corporate accountability towards wider social interest groups has been debated in the United States and many other countries (Gray et al, 1987). The constantly changing public expectations have redefined society's notion of a corporation's social responsibilities (Epstien et. Al., 1976; Heald and Bolce, 1981). Traditionally, society perceived responsible organisations as those that provided a product or service valued by society, operated within the confines of the law and provided employment. Public expectations have for the past few decades undergone significant changes. Their expectations are no longer confined to the above but they also expect corporations to attend to the human, environmental and other social consequences of business activities. There is an increasingly widespread belief that business must operate both in the interest of their owners and the public. This belief is backed by social pressure for business to combine social and economic objectives in their operations, and by legal mandate for business to avoid or correct the negative impacts of their operations on society. The economic function is now recognised as being too important and too closely linked to other societal elements to be allowed to operate without close public oversight. The early sixties saw society's increasing concern for equal employment opportunity. In the seventies, there was increasing concern for the minimisation of pollution and the effective utilisation of society's resources by corporations (Epstien, Flanholtz and McDonough, 1976). Environmentalists, for example, have been demanding information on corporate social responsibility and social impact, both beneficial and detrimental, while labour unions have demanded more complete information on minority hiring, environmental affairs and company activities in foreign countries. Society, therefore, needs more than just economic information but also social information in order to know what the companies are doing towards discharging their social accountability.

It has become more and more apparent that there is a mismatch of established accounting procedures and societal expectations. As societal expectations increase, the narrow focus of financial reporting and its objectives has led to the need for social accounting. This has resulted in a demand that business activity should conform to socially desirable ends. These developments have expanded the concept of accountability and the desire of various groups in society to monitor and influence the behaviour of business corporations, which later led to a concern with corporate social reporting.

3.4 CORPORATE SOCIAL REPORTING (CSR)

Gray et al (1987) defined social reporting as;

> "*... the process of communicating the social and environmental effects of organisations' economic actions to particular interest groups within society and to society at large. As such, it involves extending the accountability of organisations (particularly companies), beyond the traditional role of providing a financial account to the owners of capital, in particular, shareholders. Such an extension is predicated upon the assumption that companies do have wider responsibilities than simply to make money for their shareholders*" (p. ix).

Corporate social reporting has emerged voluntarily in the annual reports of many large corporations world wide, especially in the United States, United Kingdom, and Western Europe. To date, many studies have been carried out on corporate social and environmental disclosure in the developed countries, especially the US and the UK. These studies indicate that corporate social reporting content varies over time, country, characteristic of company and industry membership. These are an array of influences and motivations, which again vary among countries. However, the reasons for voluntary disclosure have yet to be agreed upon by academicians. The justification for these disclosures could be seen from the views of:

1. Market-related justification. These arguments were used to advance the case for additional disclosure on the basis that shareholders and creditors will benefit from a more responsive market which is influenced by the information content intrinsic in the disclosure (see, for example, Bowman and Haire, 1975; Vance, 1975; Abbot and Monson, 1979; Ingram, 1979).

2. Social related justification. These arguments are used where additional disclosures would be made to establish the moral nature of the corporation, to satisfy the demands of the implicit contract between business and society and to legitimise the organisation in the eyes of the public (see, for example, Gray et al., 1987, 1988, 1991; Gray et al., 1996; Roberts, 1992; Ulmann, 1985; Guthrie and Parker, 1989; Arnold, 1990)
3. Radically related justification. These arguments are those put forward by critical theorists who believe in an alternative model for society, including a different role for accounting (see, for example, Tinker, Merino and Neimark, 1982; Merino and Neimark, 1982; Lehman, 1983, 1987; Cooper and Sherer, 1984; Tinker, 1985).

The next section will describe the current state of play and patterns of disclosure of corporate social reporting in the US, Western Europe and the UK. We will then turn our attention to the socio-political, cultural environment and company characteristics, which affect the development of corporate social reporting in the above countries.

3.5 THE STATE OF DEVELOPMENT OF CSR

The areas of social disclosure are diverse, vary between countries and change over time depending on the topics and areas of interest at that particular time (see Abbot and Monsen, 1979; Hall and Jones, 1991). In the United States, for example, disclosure focussed on the environment in the seventies whilst human resource appears to be dominant in the eighties. Western Europe on the other hand concentrated on employee disclosure in the seventies and eighties with the environment gaining popularity in the nineties.

3.5.1 United States

The United States seems to be in the forefront of the voluntary corporate disclosure of social information. In the sixties, it was the US which led the way on environment and ecological issues, championed equal rights and promoted the protection of consumers, so it was not surprising that in the following decade it also provided a lead in social reporting. Social accounting started to gain a foothold in the United States in the early seventies[2]. It was the result of an outgrowth of a changing social ethos that redefined society's notion of a corporation's social responsibilities (Epstein et. al., 1976). Ernst and Ernst (1972-1978) surveys of annual reports of Fortune 500 companies form a database, which broadly defined social disclosures in the US. The survey in 1978 concluded that there was a steady increase in social disclosures (from 47.8 per cent of companies in sample in 1971 to 91.2 per cent in 1976) with fair business practice, energy and environment as the main areas of interest.

The areas of disclosure vary according to time (see table 3.1). In the seventies the dominant themes for social disclosure were the environment and energy. This was due to the renewed 'energy crisis' which arose from the Middle Eastern conflicts and the West's dependence on fuel. Ernst and Ernst (1978), identified that 50 per cent of US companies were disclosing environmental information and 53 per cent energy information respectively. Abbot and Monsen (1979) surveyed the annual reports of the Fortune 500 companies through content analysis and found out that environmental issues constituted those most frequently mentioned in the annual reports in the early seventies with equal opportunity second in importance.

Table 3.1: Patterns of Corporate Social Disclosure in the United States

	USA			
	Abbot and Monsen (1979)	**Ernst and Ernst (1977)**	**Guthrie and Parker (1990)**	**KPMG (1993)**
Data years	1974	1977	1983	1993
Sample	500	500	50	88
Disclosure (%)	85.7	89.2		76.2
Theme (%):				
Environment	50.4	57	53	67
Energy	n/a	53	43	n/a
Human Resource	29.4	47	75	n/a
Products	10.5	33	35	n/a
Community	25.5	33	63	n/a

[2] Historically, social accounting was practised well before the seventies. An interesting example of social accounting can traced back as early as 1865. Flesher and Flesher (1979) examined the financial statements of large industrial firms operating in the Deep South prior to and during the Civil War. They retrieved a financial statement of Andrew Brown Lumber Company from the national archives and found out that the company reported on the amount for food, shelter, clothing, health, and general welfare of the slaves.

In the eighties, whilst environmental matters were still widely reported, community and human resource seemed to be the main focus for corporate social disclosure. Although this is a reflection of the North American culture, this broad concern with the community did not bed very deeply until the Reagan era when members of corporate management realised that the community support is needed to maintain the organisation's legitimacy (Gray et al 1996). The emphasis on human resource in the eighties was the result of massive unemployment. Large corporations were relocating to developing countries in order to take advantage of low labour wages and labour legislation. A study by Guthrie and Parker (1990) indicated that 75 per cent of the 50 largest US listed companies in 1983 were disclosing on human resource and 63 per cent disclosing on community involvement.

Even though environmental matters never left the agenda, global renewed interest in green reporting coupled with FASB's requirement on disclosure of environmental liabilities, brought environmental reporting to the forefront in the late eighties and nineties. The Exxon Valdez disaster in 1989 prompted the Coalition for Environmentally Responsible Economies (CERES) to produce comprehensive reporting guidelines. The SEC on the other hand called for extensive environmental disclosure obligations for US companies. KPMG's (1993) survey of 88 US companies highlighted the increase in environmental reporting, indicating that sixty-seven percent of the sample were disclosing environmental information.

3.5.2 Western Europe

In Western Europe employee issues were originally the key areas of corporate social reporting. Social information in the seventies was very much focused towards employee related disclosure and to a small extent, environmental information. In 1974, Brockhoff (1979) analysed 300 annual reports of German companies and found that 205 published a 'Social Report' which focussed mainly on employee reporting, reporting on social benefits provided to employees and on research and development together with some environmental reporting. Schoenfeld (1979) surveyed annual reports of companies from Germany, Switzerland and Austria from 1972 to 1974 and similarly noted the high level of employee reporting.

Employee information continued to the top the list of social disclosure in the eighties. Delmot (1982), who surveyed 58 Belgian companies, reported that contents of social information disclosed were mostly employee related. Eighty eight percent of the companies surveyed disclosed information on size and distribution of workforce, seventy eight percent on labour turnover and seventy two percent on working hours. Ethical issues such as community and community affairs, equal opportunity, customer and socially beneficial products and services came to feature on the agenda in the mid-eighties (Rockness and Williams, 1988; Harte, Lewis and Owen, 1991) due to the development of both ethical investment trusts and their criteria for selecting investments together with the widening role of the NGOs (see Gray et al 1996).

Even though environmental information was reported regularly in the seventies (see Brockoff, 1979; Lessem, 1977; Schreuder, 1979), the turn of the decade (late eighties and early nineties) saw more widespread environmental reporting which began to overshadow information about employees (Gray et al., 1996). A survey made for the Federation des Experts Compatables Europeans by the OECD Working Group on Accounting Standards (1993) concluded that the levels of environmental disclosure were highest in Germany due to greater concern for a 'greener' environment. Roberts (1991) reported that most Western European companies she surveyed disclosed some environmental information in their annual reported with West Germany and Sweden leading the way with 80 per cent disclosure each. Adams et al (1995) found that all German companies surveyed disclosed environmental information while Swedish company's disclosure level increased to eighty eight per cent. Similar results were also found by other studies and surveys (for example, Touche Ross, 1990; Tonkin, 1991; KPMG, 1993, 1994; Lavers, 1994) which seem to proliferate in the nineties (Gray et. al., 1996).

3.5.3 United Kingdom

In the UK the gradual development of corporate social reporting started in the early seventies and began to shift to a higher gear in the mid-seventies to the early eighties. In the seventies, attention was mainly given to community issues and later shifted to employee related disclosure in the late seventies and the eighties (see Gray et. al, 1987; Guthrie and Parker, 1990; Gray et al 1991; Hall and Jones, 1991). Guthrie and Parker (1990) who surveyed the 50 largest listed companies in the UK, Australia and US in 1983 concluded that UK companies strongly favoured human resource and community involvement disclosures. Hall and Jones (1991) conducted a survey of the extended nature of social accounting disclosure by UK companies between 1975 and 1985. They found that the percentage of companies disclosing environmental information remained consistently low (with the exception of energy conservation during the world wide oil crisis). Employee-related data was the most popular category of information disclosed across the years of their study. They also noted that community disclosure has been at a fairly low level, although rising over time.

In the late eighties and the early nineties, disclosure on employment related issues remained popular. Company Reporting (1994a) reported 98% of companies surveyed (540 companies) displayed evidence of employee disclosure. There also seems to have been a renewed interest in the UK over 'green' and environmental matters in this period. Although reporting environmental issues is not new, the 1990s have seen a dramatic increase in environmental disclosure in comparison to the 1970s and 1980s. This has given rise to environmental accounting. Company Reporting (1994b) surveyed 510 companies and concluded that 27 per cent made environmental disclosures compared to only 10 per cent in 1991 and 26 per cent in 1993. The study found an increasing trend towards greater coverage of green issues. A study by Jupe (1994) on the annual reports of the top 150 companies (ranked by turnover) operating in the UK revealed that there was a substantial increase in environmental disclosures between 1987 and 1991 which reinforced the findings of Company Reporting. Lavers (1994) further strengthened Tonkins findings by investigating the occurrence of social and environmental disclosure by the top fifty UK companies over the period 1989-1991 and noting a gradual increase in the disclosure of social and environmental issues (see also KPMG 1996).

3.6 INFLUENCES ON CSR DEVELOPMENT

Spicer (1980) has suggested that a convenient starting point in theory building is the observation and description of the real world and the noting of correlation between variables of interest. Having focused on the current state of play in corporate social reporting in general, we now turn our attention to the factors that influence its development. Influences on corporate social disclosure have varied from country to country according to individual culture and market. Employees have been a powerful force in some countries, whereas consumerists and environmentalists have been prominent in others. Several countries have institutionalised or mandated corporate social disclosures but corporations have also been influenced by the disclosure practices of those countries, in which they trade or seek finance.

3.6.1 Culture and Market

Perera and Mathews (1990) have applied their model of the relationship between accounting and culture to differences in the attention given to social disclosures among different countries. There is evidence that the social, economic and cultural differences between countries can be seen in the paths they have taken towards the development of social accounting (see Mathews, 1993). The US, with its open society and high place on the individualism ladder, for example, practices open democracy which may explain why its social reporting development is directed towards consumers and the general public whilst being market driven. On the other hand, in Western Europe with its collectivist orientation, the development of social accounting is more influenced by institutional requirements and demands of employees and unions.

The US has the cultural characteristics of an open society, individual rights, competition, the primacy of markets and freedom of information (see for example; Hofstede, 1987; Heald and Bolce, 1981; Nader, 1973). These cultural characteristics greatly influenced the development of its social reporting. US corporate social reporting practice has favoured disclosure towards consumers and the general public. This could be explained by the different dominant social concerns such as the impacts of consumerism, equal rights and ecological movements. The social protest movements of 1960's and 1970's (civil right, antiwar, feminist, environmental) arose from public desire for more openness and information about business, and formed a perception that neither business or government was willing to address serious social problems without constant social pressure. Heard and Bolce (1981), suggested that rising public expectations in respect of business activities led to the reform of government regulations and suggest that these statutes are 'an emphatic manifestation of public concerns with the social impact of business activities'. They also believed that the coming of age of advocacy groups and movements in the sixties and seventies has broadened societal. expectations. Recognising these broader expectations and pressures the National Environmental Policy Act was passed in 1969, and the Securities and Exchange Commission (SEC) releases in 1971, 1972 and 1973 required publicly held companies to disclose any material financial effect of pollution abatement activities in their 10-K reports. More recently, the SEC has mandated special disclosure requirements to ensure that securities purchasers and sellers have access to information about a company's environmental contingencies and liabilities.

Historical developments and Hofstede's (1987) analysis of culture identify France and West Germany as relatively less individualistic and more collectivist-oriented. In general, European companies, especially in West Germany and France, are much more subjected to the institutional requirements for social disclosure than their American counterparts. This could be explained to some extent in terms of cultural environments because systems usually develop unique characteristics as a result of both internal and external pressures. This variation in development is probably related to the will and political strength of employees and unions, so emphasis was placed on employee information, as opposed to the interests of other pressure groups such as environmentalists or social investors. Dierkes (1979) suggested the steady increase of interest in corporate social reporting in Germany in the late sixties and early seventies was due to the 'tremendous growth and achievements and high degree of consensus about the prevailing economic interest in society and other priorities' summarised as "quality of life" issues which have become prominent and politically significant'.

After the Second World War, most Western European countries were governed by social democratic parties, which made government more susceptible to union pressures. Shortages of skilled labour forced companies to bid for skilled labourers whom they did by emphasising quality-of-life factors through social performance disclosures and offering employees a voice in management. This led to the development of industrial democracy which afforded the opportunity for workers representatives to carry their arguments right into the decision-making Boards, committees and council of a company, and to exercise a vote in the outcome (*mitbestimmung)* together with the right to receive information from the employers. In West Germany, for example, this right to information is established in law with work councils given access to a wide range of financial and non financial data. The philosophy behind this is that such access will promote mutual trust between employers and employees. In France, since 1977, all companies employing 750 or more employees have been required to present a 'social balance sheet' to their work councils. This criterion was extended to companies employing at least 300 employees in 1982. Another example is in the Netherlands where companies have a legal duty to report to the works council at least once a year, however, no specific information requirements were laid down for these reports. Corporate social reporting development in Western Europe therefore, may be explained in terms of the interplay of the institutional structure of political power and interests. It became a political issue among the constituent social groups right from the start. It has been suggested that corporate social reporting served as a counter-strategy to public criticism, especially for the big multinational corporations (Ullmann, 1979).

The Second World War did not significantly change the balance between shareholders and workers in the UK as in Western Europe. Although the British Labour Party did come to power (1945-1951; 1964-1970; 1974-79) and many companies were nationalised, State involvement in companies was minimal which may explain why corporate social reporting is mostly voluntary. When the Conservative came to power in 1979, many state-owned companies were liberalised and privatised. The government sought to redefine the employer-employee relationship by reducing the influence of trade unions and encouraging workforce participation in the running and ownership of business. The new government also passed the welfare functions of the State back to business organisations, which increased their power significantly. Gray et. al. (1996) indicated that:

"... this broad concern with community did not bed very deeply into the culture until the 1980's when, with the massive lurch to the political right that occurred (with the Thather and Reagen era) the more aware - and perhaps socially concerned - members of corporate management realised that the community support which was no longer to be provided by the State institutions should be provided by a paternalistic corporation culture concerned to maintain its legitimacy" (p. 95-96)

Although the State did pass laws to encourage disclosure on certain areas of social information, the decision to disclose remained the sole right of the management. The culture of managerial freedom and its institutionalised power contributed greatly to the development of corporate social reporting in UK. The legislative framework, which also influences the disclosure practices of companies on employee-related matters, has been changing in recent years, particularly the Companies Act 1981 and 1985. The ICAEW annual survey of company reports of 300 large companies showed that they were still providing disclosures in excess of requirements of the Companies Acts (Gray et al, 1987). Even though corporate social reporting started gradually, through legislation for example; the requirement to disclose on employees matters in *The Health and Safety at Work Act 1974; The Employment Protection Act 1975; The Employment Act 1982; The Companies Act 1985;* regulations pertaining to product quality and safety, price regulations etc. in *The Fair Trading Act 1973;* information on pollution levels of air and water caused by corporate activities in *The Control of Pollution Act 1974* (Gray, Owen and Maunders, 1987); the State played a further role in encouraging social disclosure. This is reflected by the Conservative government White Paper on Company Law Reform (DTI, 1973) which called for the disclosure of more information by companies such as safety and health of company's employees, number of consumer complaints, etc 'to give shareholders and the public the chance to judge companies' behaviour by social as well as financial criteria (para 12)' with a hope that companies will change their behaviour and to make them more socially responsible. The Labour Party also supported similar disclosures. Its 1974 green paper, '*proposed to control the public interest over the private sector by widening the scope of disclosure with particular emphasis on employee information and employee representation to control private sector organisations as an alternative* *to public ownership'.* Responding to this call, companies began to disclose information on employee share schemes and profit related pay schemes.

In addition to cultural influences, the link between markets responses and firm performance often influences social disclosure decisions. It is assumed that social performance and disclosure affect economic performance. The existence of an active and developed market has necessitated the expansion of information to meet user needs and a prominent pattern of research in the United States developed those studies the relationship between economic and social performance. Surveys of investor's attitudes appear to have mixed results but generally there appear to be some suggestion that social accounting disclosures influence investment decisions (Epstein and Freedman, 1994). Belkaoui (1972), for example, conducted a field study to determine the extent to which certain social disclosures might influence investment decisions and found out that pollution costs had an influence on investment. Longstreth and Rosenbloom (1973) on the other hand surveyed institutional investors and found out that in addition to economic factors, social disclosures are also considered in making decisions. However, Abbot and Monson's (1979) study found no relationship between social disclosure and economic performance. Ulmann's (1985) study on the relationship between social disclosures and economic performance, reinforced findings of Freedman and Jaggi (1982) and Shane and Spicer (1983) in suggesting a negative relationship. In sum, there does not appear to be a single reason why firms choose to disclose social information.

International pressure also plays an important role in the development of corporate social reporting. As the world is becoming an increasingly complex place, international co-operation and regulation on corporate activity and reporting is greatly needed. Pressures from the United Nations and the European Union for greater disclosure with special reference to information, which is relevant to employee interests, has spurred interest in corporations disclosing such information. The UN proposals on International Standards of Accounting and Reporting in 1977 for example, highlighted the need to extend the scope of required disclosure beyond pure financial reporting which favoured the publication of separate reports. The Rio Earth Summit in 1992 on the other hand has succeeded in forging a basic consensus on some of the most important environmental issues. The Treaty on the European Union (1992) and European Works Council Directive (1993) require large European companies to disclose information to employees whilst the European Communities' Fifth Action Plan (1993) requires certain industries to disclose environmental information.

3.6.2 Characteristics of Companies

In addition to cultural and market factors, previous studies also found that a number of corporate characteristics such as company size, profitability, industry with which the company is identified, and country of ownership influence corporate social disclosure practices. Gray et. al. (1995a) page 49-50, best summarised the previous studies as;

1. CSR does appear to be related to company size but results are not reliable.
2. There is some evidence of industry effects but studies are not clear.
3. CSR does not appear to be related to profitability in the same period but some evidence suggests that it might be related to lagged profit.
4. Country of ultimate ownership seems to have a significant effect.

3.6.2a Size

In general, previous studies have suggested a positive correlationship between company size and social disclosure. Watts and Zimmerman (1978) argued that because political costs reduce management wealth, companies attempt to reduce costs by such devices as social responsibility disclosure campaigns. Spicer (1978) found that larger corporations tend to disclose more information on pollution than smaller firms do. Cowen, Ferreri and Parker (1987) believed that social disclosures are correlated to company size because larger corporations are highly visible, make a greater impact on society, and have more shareholders who might be concerned with social programmes undertaken by the company.

Similar results were also found by Trotman and Bradley (1981), Cowen et. al. (1987) Belkaoui and Karpik (1989) and Patten (1991, 1992). A more recent study by Hackston and Milne (1996) who analysed the largest 50 companies in New Zealand concluded that size is significantly associated with amount of disclosure. Nevertheless, these results are still not definitive when other factors are not taken into consideration such as, the diversity of empirical data examined (for example, Hackston and Milne analysed the 50 largest companies based on market capitalisation while Belkaoui and Karpik based their study on 45 leading companies' based on log of net sales), the different methods employed (Hackston and Milne employed multiple regression, Ingram used portfolio analysis) and conducted at different times (Trotman and Bradley, 1981; Belkaoui and Karpik, 1989; Cowen et. al., 1987; Tonkin and Skerratt, 1991).

3.2.6b Profitability

There is also a belief that corporate social responsibility and corporate profitability are related. Abbot and Monsen (1979) take this perspective but Heinze (1976) disagrees, seeing profitability as a causal factor (i.e. one affects the other). Theorists who accept the latter perspective cite profitability as a factor that impels management to undertake, and to reveal to shareholders more extensive social responsibility programmes (Maheshwari, 1992). Ulmann (1985) believes that, 'a firm's past and current economic performance is important in two ways. First, economic performance determines the relative weight of a social demand and the attention it receives from top decision-makers. In periods of low profitability and in situations of high debt, economic demands will have priority over social demands. Second, economic performance influences the financial capability to undertake costly programs related to social demands'. Bowman and Haire (1976) believe that the relationship between corporate social disclosure and corporate profitability reflects the view that social responsiveness requires the same managerial style as that necessary to make a firm profitable.

Previous studies on the relationship however, have produced mixed results. Bowman and Haire (1976) and Abbot and Monsen (1979), by using reputational scales (responses from the public to a social phenomenon), indicated that there is a positive correlation. They report significance differences for a five-year average return on equity (ROE) between disclosing and non-disclosing companies. Preston (1978) supported Bowman and Haire's study by reporting a higher ROE for high disclosers. Mills and Gardner (1984) concluded in their analysis of the relationship between social disclosure and financial performance that companies are more likely to disclose social responsibility expenditures when their financial statements indicate favourable financial performance. While Cowen et al., (1987) and Hackston and Milne (1996), using multiple regression analysis, failed to find a positive relationship (see also Fry and Hock, 1975; Anderson and Frankle, 1980; Ingram, 1978; Freedman and Jaggi, 1982). Roberts (1992) who looked at the relationship between lagged profit and CSD found evidence for a positive relationship. Patten (1991) on the other hand failed to find any relationship between lagged profit and CSD. Ulmann (1985) indicated that the reason for these mixed results lies in the weakness in methodology of most of the studies, generally intervening variables are not taken into consideration, for example, whilst the effect of size and industry were not controlled.

3.6.2c Industry

Market segment or nature of the industry is one of the major characteristics that influences social disclosure. Ingram (1978) considers industry as an important attribute for consideration because the nature of, and motivation for, disclosure varies according to the production-investment alternatives available to individuals. *'These alternatives are likely to be more similar among firms in one industry than between firms in different industries'* (pp 277). Others believed that companies whose economic activities modify the environment, such as the extracting industries, or seek to enhance corporate image as in consumer oriented industries tend to disclose more social information. Industry affiliation influences political visibility and this drives social information disclosure to ward off undue pressure and criticism from social activists (Fry and Hock, 1976; Patten, 1991; Hackston and Milne, 1996).

Even though Cowen et al (1987) believed that certain industries are expected to disclose more social disclosure because of greater governmental pressures, their study found that industry category only appears to have influenced certain types of social responsibility disclosure, namely energy and community involvement, but not the incidence and total amount of corporate social disclosure. Similar to Patten (1991) and Roberts (1992), Hackston and Milne (1996) found evidence that social disclosure is related to type of industry. They argued that because some industries face more stringent regulatory environments than others, firms in such industries may consider it necessary to reassure existing and potential investors that they are complying with regulations.

3.6.2d Country of Ownership

Even though there have not been many studies conducted on the effect of country of ultimate ownership on corporate social disclosure, there is a belief that is a relationship between the two. Guthrie and Parker (1990) for example, believe that companies from different countries report differently because, consciously or unconsciously, they are developing a series of subsystems of social disclosure to match the perceived importance of constituents and due to the necessity to demonstrate a constructive response to public expectations as a strategy that may delay or avoid imposition of regulation. Studies by Guthrie and Parker (1990) and Roberts (1990) indicated that there is a relationship between country and the amount corporate social disclosure. Guthrie and Parker's (1990) survey, for example, showed that 56 per cent of Australian companies disclosed social information as compared to 98 per cent of UK companies and 85 per cent of US companies. Their Chi-Square test indicated that there is a difference in level of CSD between different countries.

In developed countries there is yet to be a study carried out on corporate social disclosure that compares local companies with foreign-owned (country of ultimate ownership) companies. The only study that began to address this issue was that conducted by Hackston and Milne (1996) who investigated the effect of dual home and overseas listing on greater social disclosure. They concluded out that is an association between the two. In Malaysia, the only two studies on corporate social reporting were those conducted by Teoh and Thong (1984) and Andrew et al (1989). Andrews et al (1989) found that country of ownership may have some effect on corporate social disclosure in that foreign companies have a greater visibility and are more likely to be subject to scrutiny by the host government. It is, however, difficult to assess the reliability of this result since it appears to be compounded with company size. Teoh and Thong (1984) found that predominantly foreign-owned companies were only marginally ahead of Malaysian companies in terms of social disclosure. They believed that greater social commitment and disclosure was one way of overcoming possible criticisms that these companies were only concerned with exploiting the economic resources of developing countries.

Culture and market have been the most important influence over the development of corporate social reporting. The open society, open democracy and individualism culture in the US has influenced social reporting developments which are directed towards consumers and general public and are more market driven. The collectivist-oriented culture of Western Europe has influenced the development of social accounting and reporting towards institutional requirements and those of employees and unions. Additionally, corporate social disclosures are also influenced by different company characteristics, for example size, profitability, industry and country of ownership. However, corporate information still remains the prerogative of the management.

3.7 RELUCTANCE TO DISCLOSE

Even though many studies have addressed the relationship between characteristics of companies and social disclosure firm conclusions are difficult to draw. More importantly we have to recognise that the different social, political and cultural environment of each country, significantly influences disclosure patterns. Corporate social responsibility issues and reporting is the prerogative of the management. Some managers are reluctant to disclose information. An earlier study showed that US management did not have the same enthusiasm for communicating to employees, as to stockholders (Hay, 1955). In the UK some employers (and employees) also believed that information should not be disclosed either directly or through the trade unions (Dickens, 1980). In addition, studies of the US financial market showed good news tended to be disclosed early, whilst bad news was delayed or not reported at all (Pastena and Ronen, 1979; Patell and Wolfson, 1982).

Explanations for managerial reluctance to disclose information have included rationales of costliness, lower information value, the fear of giving sensitive information to competitors, and the risk of confusing the readership (see, for example, Chanda and Greenball, 1977). Also there is the argument that increased disclosure will encourage society to demand yet more of the business organisation, both in its social role and in the reports it issues (see Cheng, 1976). However, just as important is probably the fact that management are unaccustomed to providing social information and may simply dislike having to disclose information.

3.8 MALAYSIA

According to Business Monitor International Limited (BMI) (1994), the prospect of growth in the developing countries remains favourable even though there is a slight moderation in output in the last two years (from 5.9 per cent in 1992 to 5.8 per cent in 1993 and 5.4 per cent in 1994). BMI suggested the slight moderation in growth is primarily due to the slower rate of reconstruction in the Middle East, the effect of policy slippage in Brazil and the unstable growth of African countries. Many developing countries continue to show resilience to the weakness of activities in the industrial countries, which are the major market. The effect of government reform, such as transforming from an agriculture base to an industrial base, explain the impressive growth in many Latin American and Asian countries.

Asia has already become a new hub in the world economy. It is projected that two thirds of the world's financial transactions will be focused in the Asia-Pacific Region by the year 2000 (Far Eastern Economic Review, December 1995). The growth of this region has been tremendous in the past 5 to 10 years, creating a whirlwind of opportunities in mega-city development. Long term double digit industrial growth is projected to fuel continued economic growth of 6 per cent to 11 per cent per annum across the economies of the region in the next 20 years and more.

Eight years of successive growth of GDP have kept Malaysia on track to achieving its goal of full industrialisation by the year 2020. Human Development Report (1992) ranked Malaysia ninth among 160 countries, not only among the developing countries but also the Southeast Asia and Oceania and high middle-income countries. By the yardstick of three crucial elements of human development - life expectancy, longevity and literacy - Malaysia despite being listed as one of the lower middle-income countries has performed even better than the upper middle-income countries (see Huq, 1994). The World Bank's recognition of Malaysia as one of the emerging tigers in the East Asian horizon bears testimony to its progress (Jomo, 1994).

However, with social awareness and responsibility, Asia is still in the embryonic stage. The limited number of studies on the subject matter of corporate social reporting could perhaps testify to the truth of this statement. Empirical studies on corporate social reporting in developing countries (see Singh and Ajuha, 1983; Maheshwari, 1992; Savage, 1994) are not only limited but also inconclusive. These studies only cover the company characteristics that influence disclosure (excluding country of ownership) and do not go deeper into the reasons behind why companies are disclosing or why they are not.

3.9 IMPLICATIONS FOR MALAYSIA

In previous sections we have identified that the themes of social disclosure vary between countries and are dependent on the individual topics and areas of interest. Disclosure is directly affected by each different culture and market. Similar to the developed countries, the same factors will affect the themes of disclosure and influence the development of corporate social reporting in Malaysia. Whilst the fact that the main theme of social disclosure in Malaysia thus far is the human resource indicates a similar development to that of Western Europe and the UK, Malaysia has a different culture which traditionally is collectivist-oriented but is moving away from it. The unique Malaysian culture, which is a hybrid of UK and US culture, will probably influence the development of social reporting differently.

3.9.1 Empirical Studies

Teoh and Thong (1984) surveyed one hundred public listed companies, representing a cross section of industrial groupings ranging from plantations and mining to various types of manufacturing and services, through personal interview questionnaire. They do go a little bit deeper by focusing on the concept of corporate social responsibility, the nature and extent of involvement in socially relevant activities and corporate social reporting vis 4 levels of social objective hierarchy. The social objective hierarchies are identified as social awareness, social involvement, social reporting and social audit. It was discovered that companies are aware of their social roles because of top management philosophies. Similar to the UK, legislation relating to social performance areas such as Employment Ordinance, Trade Description Act, Environment Quality Act is also a factor that arouses social awareness. The practices of parent companies are the major determinant among foreign owned companies. Social activities have been practised with the main emphasis on human resource issues and product/service to consumers (see Table 3.2). It was also discovered that most of the companies reporting on social aspects are largely public-based companies with major foreign ownership.

Table 3.2: Aspects of Social Reporting According to Ownership by Country

Major ownership by country	Human Resource		Product/ Service		Community		Environment	
	No	%	No	%	No	%	No	%
Malaysia	12	23	8	15	5	9	5	9
Britain	6	33	2	11	2	11	3	17
USA	2	29	0	0	1	14	1	14
Australia	1	100	1	100	0	0	0	0
Others	5	4	1	8	1	8	1	8

Source: Teoh and Thong (1984)

Another Malaysian survey conducted by Andrew et al (1989), surveyed the 1983 annual report of 119 public-listed companies in Malaysia and Singapore, covering mainly smaller companies (turnover below $65 million) in the industrial and commercial sectors, using content analysis. The survey shows that only 26% of the companies made social disclosures with the main theme again being human resources. Most companies that have social disclosures are basically foreign owned companies.

Table 3.3: Malaysian Corporate Social Disclosure by Themes of Disclosure

	Teoh & Thong, 1984	Andrew, Gul, Guthrie & Teoh, 1989
Sample	100	119
Disclosure	29%	26%
Theme:		
Human Resource	45%	71%
Community	16%	10%
Product	21%	14%
Environment	18%	5%

The table above summarises the results of the only two studies made in Malaysia by Teoh and Thong (1984) and Andrew et al. (1989). From the above table we can see that the main theme of social disclosure, amongst disclosing companies, is human resource and the community. The survey by Teoh and Thong, (1984) showed that disclosure on human resource was 45 per cent while the survey made by Andrew et al. showed 71 per cent. The combination of human resource and community disclosure for Teoh and Thong and Andrew et al. is 61 per cent and 81 per cent respectively.

Apart from the areas of disclosure, the characteristics of a company also play an important role in social disclosure. The country of ownership corporate size and industry sector are relevant characteristics influencing social disclosure (see Table 3.4). Andrew et al (1989) for example concluded that larger companies disclose more social information, while industry had an effect on social disclosure with the Industrial and Commerce sector taking the lead in reporting. Teoh and Thong (1984) found that predominantly foreign-owned companies were only marginally ahead of Malaysian companies. Andrew et al. (1989), however, found out that 98 per cent and 95 per cent respectively large UK and US companies disclose social information compared to only 50 per cent of large Malaysian/Singapore companies which could reflect the fact that consumers and other interest groups are not yet powerful enough to urge companies to be socially responsible and to report social activities.

From the two Malaysian studies (which are now somewhat dated), we can conclude that for Malaysia, being a developing country, the concept of social reporting is still a new one. Will social reporting continue to grow in Malaysia and if so what pressures will be behind such development in performance and disclosure?

Table 3.4: Malaysian Corporate Social Disclosure by Company Characteristics

	Teoh and Thong, 1984	Andrew et al, 1989
Country of ownership		
Malaysia/Singapore	26%	50%
Europe	32%	98%
USA	29%	85%
Others	33%	n/a
Size		**By Turnover**
Small	n/a	15%
Medium	n/a	43%
Large	n/a	50%
Industry		
Banking and finance	n/a	12%
Mining	n/a	4%
Industrial and commerce	n/a	73%
Others	n/a	11%

3.9.2 Culture and Market

One of the dimensions identified by Hofstede (1987) as reflecting the cultural orientation of a country is individualism versus collectivism. Individualism, according to Hofstede, stands for a preference for a loosely knit social framework in society where individuals are supposed to take care of themselves and their immediate family only. Collectivism on the other hand stands for a preference for a tightly knit social framework in which individuals can expect their relatives or other groups to look after them in exchange for loyalty. . Hofstede concluded that developing countries are in general at the bottom end of the individualism versus collectivism scale which. indicates a low degree of professionalism (preference for the exercise of individual judgement and the maintenance of professional self-regulation as opposed to compliance with legal requirements and statutory control). An active government role will therefore be needed to develop accounting principles. Providing legal authority is likely to result in a higher reliability of published financial information.

In Malaysia, the legislative history of Companies Ordinances and Acts shows a characteristic trend where the boundary of minimum disclosure has been continually widened and enhanced over time. British influence was dominant in the early days of

Malaysian company legislation, when the standard of corporate reporting was brief and simple. One can also say the same of the modern corporate disclosure structure in the *Malaysian Companies Act 1967*, which derived much of its impetus from UK practice and legislation. The role of company law has had, and still has today a major effect on corporate reporting in Malaysia. Whilst the law provides minimum disclosure requirements, it is not normal practice for companies to disclose much in excess of their statutory obligations.

In much of Western Europe, industrial democracy or workers representation on Boards of Directors has provided a codetermination framework for corporate performance and disclosure. However, it is very unlikely that employee or union pressure will create similar structures in Malaysia since the governing parties are not controlled by labour. Additionally, the minority parties are not dominant enough to pressure the government (the current government, which has ruled Malaysia since independence, currently has more than a two-thirds majority). However, because of the dominant influence of the UK over Malaysia, social disclosures in Malaysia could follow the UK pattern of development. Like the UK, Malaysian corporations started to disclose human resource as their main theme.

Whilst the US stock market is active and more developed than in other developed countries, the Malaysian market is slowly gaining pace. Therefore the development of corporate social disclosure in Malaysia could also be influenced by US practice. The active Malaysian stock market and the pursuit of wealth for example has seen Malaysian society climbing the ladder of individualism which could develop social reporting in the direction of satisfying user needs. The users, especially investors and financial analysts, in order to make decisions might pressure companies to disclose social information. The traditionally close knit Malaysian community (collectivist) has slowly changed to a new format of materialism and individualism, which challenges old values, culture and heritage. Since most Malaysian companies are considered 'young' and small, the continued existence of their business is crucial, and therefore strategies are focussed on attracting more investors and increasing profit. Companies would carry out their social activities if and when it benefits the business. Teoh and Thong (1984) pointed out that:

"... social performance cannot be dissociated from that of economic performance for, in many ways these two activities complement each other in contributing to a company's long term profit. Greater emphasis is thus given to major social performance areas like human resource and product/service to customers, where the potential impact from these activities can be associated, directly or indirectly, with the profitability of a company" (p. 193).

The number of advocacy groups in Malaysia is increasing with the Malaysian Consumer Association and Sahabat Alam Malaysia (Green Peace) becoming particularly prominent. These advocacy groups have not only pressured corporations to be socially responsible but also prompted the government to amend Bills and regulations. For example, to deter offenders, The Environmental Quality (Amendment) Bill 1996 which seeks to give the Minister and Department of Environment director-general more powers as well as increase fines and jail terms for offenders was recently tabled at the Dewan Rakyat (House of Commons). Manufacturing industries on the other hand must always keep their emissions below the levels set forth by the Department of Factories and Machinery. Recently the Department of Occupational Safety and Health has introduced new regulation in 1996 whereby companies have to provide safety and health officers. Even though Malaysian society is becoming more open and individual rights increased, freedom of information has yet to catch on (similar to the UK). It is hoped that these regulations would influence corporation to disclose social information.

Domestic pressure also plays an important role in the development of corporate social responsibility. One example is a big hydroelectric project, the Bakun project, which could submerge millions of acres of prime jungle and its inhabitants (see, The Guardian, 31/1/94, The New Straits Times). The Bakun project, one of the largest dams to be built in Asia, has raised controversial issues such as the impact on the environment, the rainforest, its inhabitants and also the ethnic groups that need to be evacuated and has attracted the interest of a lot of interest groups world-wide (The Far Eastern Economic Review, July 1994). Tragedies, for example, the collapse of a condominium in late 1993 with a death toll of 49 (The New Straits Times, December 1993), the collapse of several other buildings in progress in the early 90's and land slides, also have prompted the government to make Environmental Impact Assessment compulsory before any construction on hill slopes can be undertaken.

3.9.3 International Pressures

Supranational influences play a significant role in the development of corporate social reporting in developing countries. Pressures from international organisations, for example, Commonwealth Countries, the World Bank, General Agreement on Tariffs and Trade (GATT), international capitalism, international business and international capital markets (see Gray et al., 1996) provide a further reason for companies in developing countries to disclose social information.

The Lankawi Declaration, a proposal for all the Commonwealth countries to be environmentally friendly was one of the main items on the agenda of the Commonwealth Heads of Government Meeting held in Malaysia in October 1989. The 'Declaration' has ten basic action programs to conserve the environment such as reforestation, promotion of the practice of agriculture that reduces carbon dioxide and the deterrence of pollution via dumping toxic waste in seas and oceans (there was no mention of reporting, however). All the Commonwealth countries unanimously accepted the declaration, which shows the overall concern for the environmental problems and the need to overcome them world-wide. The developing countries, especially, need to set up their own action programs in line with the declaration while the developed countries are to give full assistance. Also included in the agenda was eradication of poverty and enhancing the quality of life. This later led to the introduction of a 'caring society' policy by the Malaysian government in the early nineties.

3.9.4 Reluctance to Disclose

To date, no Malaysian studies have been conducted on the reasons why managers are disclosing, or why they are reluctant to disclose, social information. Explanations for managerial reluctance could be similar to those of the west, for example, costliness, lower information value, the fear of giving sensitive information to competitors, the risk of confusing the readership, the fear that increase disclosure will encourage society to demand yet more of the business organisation, both in its social role and in the reports it issues, and the probable fact that management are unaccustomed to providing social information or may simply dislike having to disclose it. Additionally, it is well known that in the Asia-Pacific region, modesty is a fundamental cultural value. Perhaps the inclination to keep corporate affairs a matter of internal interest is still strong as reflected by this culture.

It is indeed true that in developing countries there is a dilemma of how to balance the need for economic development and cost of environmental deterioration. It is only natural that we need to satisfy our self first before satisfying others. Corporations first need to grow and accumulate profit. Clearly the main initial focus of Malaysian corporations will be on the investors in order to attract capital for growth. Once their basic and main objectives are fulfilled they are expected to help others. After satisfying the shareholders, it is only natural that companies will satisfy the person next or closest to them, i.e. the community. After community or public will environment be next on line? These strategies and attitudes will change over time, as the businesses become more stable. They will start to involve themselves with the community and the environment and disclose these themes in their annual reports. Furthermore, it is possible that social and environmental responsibility is a pre-requisite for continued profit growth in the long run, since expectations for business to be socially responsible is on the increase as the society becomes more educated. To maintain a stable pattern of growth, business will therefore have to look at social responsibility. Additionally, with the introduction of Vision 2020 and the 'caring society' policy by the Malaysian government, businesses are being persuaded to be socially responsible and disclose their actions. Malaysian corporations are already seen to be disclosing information on human resources. Large corporations are already disclosing information on products and communal activities whilst some foreign owned corporations are disclosing environmental information. This shows that after the first need to satisfy the shareholders is met, the corporation will look to their next closest person to satisfy, for example, community and environment. Malaysia is indeed climbing the ladder of individualism.

3.10 CONCLUSION

Accounting traditionally has provided information regarding the financial position of the business for its owners. It later extended its objectives towards providing information to financial providers for decision making purposes. However, with the rise in demand for social accountability, more information regarding business activities is required. Thus accounting is forced to shed some of its traditional functions and provide social information in accordance with social objectives.

In the US and the UK, most social disclosures are voluntary whereas in many continental European countries there is legislation in the social sphere, mainly dealing with reporting to employees, which impacts on disclosures made by corporations. The areas of disclosure in the US cover a wider variety of information (environment, product, energy, as well as employment) while in Western Europe, corporations have traditionally concentrated on those matters which affect employees. UK disclosures appear to occupy a point between the two other groups. In the UK social disclosure trends in the early 70's focused on social responsibility and by mid to late seventies had shifted to employees and trade unions. The pursuit of economic goals in the eighties saw the area of disclosure concentrating on employee rights, while in the nineties, environment seems to have become the major theme.

In developing countries where businesses are concerned with increasing production, shareholders obsessed with profit and obtaining high dividends, and government and consumers with public amenities and infrastructure development corporate social responsibility may not be emphasised at all. In the developing countries, the idea of corporate social reporting is still new. In Malaysia a number of corporations are starting to disclose information in their annual reports (Andrews et. al. 1989; Teoh and Thong, 1984). Even though the information may be small in amount and focus mainly on the human resource, it is a good starting point towards more and better corporate social disclosure. Areas of disclosure will vary over time depending on the topic of interest at that particular time. Size and profit of the corporation could be a major determinant of voluntary disclosure. Corporate social disclosure will also be influenced by socio-economic factors together with domestic and international pressures. Legislation, international pressure and domestic crises have caused awareness of social responsibility issues in Malaysia. More and more corporations are becoming socially aware and are disclosing social information in their annual reports. Corporate social reporting in Malaysia is expected to grow. Social disclosure by Malaysian companies may be expected to follow Western trends due to an observable shift from the traditional culture of collectivism towards individualism. However, potential conflict between the introduction of Islamisation policy and pressures towards freedom of information make future social disclosure patterns uncertain.

CHAPTER FOUR

THE THEORETICAL FOUNDATIONS OF CORPORATE SOCIAL DISCLOSURE

4.1 INTRODUCTION

The emergence of corporate social reporting has given rise to many theoretical and empirical investigations in the area. Interest in corporate social reporting has waxed and waned as researchers have entered and left the field (Parker, 1986), whilst significantly it has continually attracted doubts about its legitimacy as an area of accounting research enquiry. Regardless of whether the emergence of corporate social reporting has been through evolution or revolution, disclosure has emerged voluntarily world wide. As a result, a wide variety of published articles about the theoretical aspects of corporate social reporting have appeared. Despite the multiplicity of articles, they seem to deliberate about the one 'true' theoretical perspective of social disclosure. There are some who believe that the reason for disclosure is part and an extension of the traditional accounting function (see Bowman, 1973; Benjamin and Stanga, 1977; Buzby and Falk, 1978 1979; Chenall and Juchau, 1977; Firth, 1978, 1979, 1984; Belkaoui, 1980, 1984; Aupperle, 1984). Some think that it is for the purpose of legitimising the corporation (for example, Abbot and Monson, 1979; Patten 1992) while others are of the opinion that disclosures of social information are an integral part discharging accountability (Gray .et. al.1987, 1988, 1991, 1996; Laughlin, 1990; Roberts, 1991). There are those who believe that disclosure can be seen as part of the management's strategy of giving information to users so as to maintain or continue the success of the company (Roberts, 1992) whilst others argue that accounting reports are social, political and economic documents representing a proactive attempt by an organisation to portray its own view of its social and political constituency (Gray et. al, 1995a). The cultural revolution in the sixties and the seventies has also been suggested as the triggering mechanism for corporations disclosing social and environmental information (see Parker, 1986). In sum, corporate social reporting has yet to find a unifying paradigm.

The purpose of this chapter is to examine the theoretical framework of corporate social reporting and see how it relates to the Malaysian environment. The chapter will begin with an exploration into the assumptions that underlie the social sciences and their theoretical development. It will then proceed into an examination of conventional accounting theory and its limitations as a means for developing a corporate social reporting framework. Recognising the limitation of conventional accounting theory, several corporate social reporting frameworks, such as extension of traditional accounting and decision usefulness will be discussed and rejected. An alternative framework is subsequently presented i.e. accountability. Finally, based on the above assumptions and theories, the chapter will try to explain the current state of corporate social reporting theory as it applies to Malaysia.

4.2 THE PHILOSOPHY OF SCIENCE

Since the 1960's we have witnessed a significant change in accounting thought - the switch in the emphasis from 'how to do it?' towards the more complex question of 'why do it?'. It is in this climate of changing thought that the social aspects of accounting are being introduced gradually to accounting education and research. Unfortunately, however, very little is known about either the social nature of accounting thought and practice or the interplay between the social and the organisation. Even though there are some scholars who have made occasional comments which have pointed to the social origins and significance of the accounting, the relationship between the philosophies of social science and accounting has rarely been discussed.

4.2.1 Theories of Science and Knowledge

In almost every discipline theory is always difficult to come to terms with. Theory being abstract and conceptual requires an understanding of what it seeks to explain and understand. Theories are not pursued for their own sake, they are problem driven. Theory is a quest for knowledge, to understand, explain, predict and justify the existence of a problem, and is intended to provide insight. Nonetheless, theory is always subject to assumptions since it is not free from individual values or prejudices

(Tinker et. al., 1991; Gray 1992), that reflect and construct one's perception of the social world and social systems.

As a discipline, the philosophy of science is related to the history of science, the sociology of knowledge, and the psychology of research. Systematic writing about the philosophy of science can be dated back to the ancient Greeks, for example, Aristotle, Socrates etc (see Losee, 1980). The philosophy of science is concerned with such questions as:

1. What characteristics distinguish science from non-science?
2. What procedures should scientists follow?
3. What conditions must be satisfied for a scientific explanation to be correct? and
4. What is the cognitive status of scientific laws and principles?

The 'traditional' or 'inductivist' view holds that science proceeds by collecting factual data through observation and experimentation which serve to increase the explanatory power of observational data. By inductive methods, generalisations and causal laws can be arrived at. A very different viewpoint is held by Popper. This 'hypothetico-deductive' view also has a long intellectual history, though its modern form has developed from a much extended role for experimental inquiry. Popper holds that science and knowledge progress by advancing hypotheses, making deductions from them, continuing to test against experience until falsified, then revising or changing the hypothesis to cope with this. This view states that:

1. observation is 'theory-laden,' i.e., there are always hypotheses implicit or explicit in observation (even, ultimately, back to innate perceptual hypotheses in the new infant),
2. a theory can never be verified in the sense of proved correct, but it can be falsified,
3. all knowledge is provisional, there is no absolute truth, but we can prefer one theory over another, and
4. falsifiability is the criterion separating science from non-science.

A major protagonist to Popper has been Thomas Kuhn. Kuhn agrees with Popper in seeing observation as 'theory-laden, and science as a problem-solving activity which cannot arrive at an absolute verifiable truth, however, he disagrees about the role of falsifiability, and the criteria demarcating science and non-science.

Kuhn characterises a mature branch of science as having an accepted 'paradigm' (e.g. a basic set of assumptions, ways of problem-solving). In a very early stage; a discipline might be pre-paradigmatic, characterised by many schools, quarrelling about fundamentals, and rather random fact-gathering. With maturity, one paradigm is accepted which directs observation and experiment. This ushers in 'Normal Science,' a period of 'mopping-up operations' in which paradigm applications are extended, methodologies developed and characteristic jargon appears. Textbooks which reinterpret past history will be the main source for understanding the current paradigm. Normal science continues, despite the existence of anomalies or falsifying instances. The paradigm is not rejected unless a potentially superior paradigm appears. This ushers in a period of revolutionary science, with competing paradigms. Eventually one paradigm triumphs, in part through resolving some anomalies but also perhaps through making some new successful predictions, or appearing more precise, or elegant. Normal science then resumes with the new paradigm. Science is distinguished from non-science by it's being a problem-solving activity with an accepted paradigm. Lambie (1991), asserted that Kuhn probably sees the social sciences as at an early stage in development when considered from the perspective of mature science.

A compromise between the positions of Popper and Kuhn was advanced by Imre Lakatos. Lakatos (1974) describes 'a scientific research programme' as having a hard core of fundamental assumptions which are not open to question whilst being surrounded by many auxiliary hypotheses which can be changed to accommodate anomalies or falsifications. Criteria are available to decide whether a particular research programme is 'progressive' or 'degenerating'. Lakatos attempts to reconcile the argument that falsification need not destroy a programme, with some rational criteria for saying when a research programme should be abandoned.

Fayeraband (1975) meanwhile stressed that in science, there is no method. He argued that methodologies which produce rules for the guidance of scientists, in terms of their choices and decisions, are inappropriate. In this relativist[1] position, there is no logical ground for preferring one theory over another. Fayeraband finds the research programme put forward by Lakatos acceptable because it does not provide rules for the choice of programme by individual researchers, although they are still subject to societal pressures and influences.

The purpose of scientific endeavour is to produce some answers to specific problems that surround us. Both the natural and the social worlds have given rise to natural and social scientific knowledge respectively. This knowledge exists in the form of understanding and explanation which in turn serve to provide the basis for improving the quality of life for those who inhabit the world. Science, theories and the knowledge that they generate are not pursued for their own sake. They are problem-driven. If the world that surrounds us was not problematic then we would not need to understand how these problems have arisen, explain the ways in which they function or persist and suggest how we might begin to tackle them.

4.2.2 The Philosophy of Science and Conventional Accounting

Accounting is widely viewed as a social science. Mauntz (1963) nicely relates accounting and social science by saying:

> *"Accounting deals with enterprises, which are certainly social groups; it is concerned with transactions and other economic events which have social consequences and influence social relationships; it produces knowledge that is useful and meaningful to human beings engaged in activities having social implications; it is primarily mental in nature. On the basis of guidelines available, accounting is a social science"* (page 318).

[1] Relativist views, advancing a very strong or determining influence of social context on how science is done, and re-emphasising the possibility of 'progress' in any absolute sense, come from the 'New Sociology of Science' of the late 1960's onwards.

Accounting may be approached from the point of view of the philosophy of science. Accounting research findings have provided some indications that accounting thoughts have followed the pattern theorised by Kuhn. In 1975 the American Accounting Association was given the task of producing a document on accounting theory. This document, called the Statement of Accounting Theory and Theory Acceptance (SATTA), was produced in 1977. In the development of accounting thought and theory, the committee adopted the view of Kuhn's philosophy of science by recognising that:

- there is no single universally accepted accounting theory;
- there is a steady stream of counter arguments and criticism;
- the changes in the process of theorising in accounting may be more revolutionary than evolutionary;
- the accounting discipline is passing through a period of paradigm war.

Wells (1976) has also in part adopted Kuhn's approach whereby he represents the period of normative theorising of accounting research as a pattern of a paradigm shift. He also relates accounting to the philosophy of science by recognising the similarities with Kuhn's disciplinary matrix which consists of:

- symbolic generalisations - readily understood and undisputed symbolic representations common to the discipline. (e.g. double entry equation, representations of income, current asset/fixed asset classifications and calculation of working capital, rate of return and debt/equity ratios);
- shared commitments - beliefs that help determine what will be accepted as explanations or solutions. (e.g. realisation and matching principles, the going concern and the cost basis of asset valuation);
- values - the various qualities which members of community expect in the work of their colleagues (e.g. conservatism, consistency, materiality);
- exemplars - the concrete problem-solutions which students entering the community encounter and which show by example how they are to go about seeking solutions (e.g. textbooks and expositions in current use).

Peasnell (1978) on the other hand does not believe that Kuhn's theory can be applied to accounting because Kuhn was basing his theory on physics and natural science. He asserted that the existence of a variety of theoretical approaches does not mean that there is a multiplicity of competing paradigms because the variety of approaches described by the SATTA committee do not really constitute paradigms. Moreover, the Committee could not identify the factors that would lead to the growing acceptance of one paradigm and the resultant 'theoretical closure' of accounting (page 218).

Laughlin (1981) for his part favours Fayeraband's flexible approach to research. He rejects both Wells (1976) and the SATTA committee's adoption of accounting with Kuhn's approach. Laughlin believes that the present accounting system does not have the conditions of normal science for example, prediction. Present accounting, according to Laughlin, is more concerned with accountability and accurate reporting of facts than it is with predictions.

It is often said that science searches for causes. According to Kuhn, science, theories and knowledge are not pursued for their own sake, they are problem driven. We seek for theories and explanations when dissatisfaction arises and things are not right. The prevailing view is that accounting, like most social science, progresses through revolution. Conversely, there are those who believe that accounting will proceed through accumulation of ideas or evolution (see, for example, Tweedie, 1975). Such a view requires the acceptance of most proposed approaches as potential contributors to a final, unified, or comprehensive theory of accounting.

This researcher is adopting Khun's approach and believes that accounting is a social science with competing paradigms which is in a period of crisis with struggle taking place for domination of accounting thought. Corporate social reporting is also in a period of crisis with its own paradigm war taking place. In order to understand this period of crisis, we will need to identify what the competing accounting paradigms are.

4.3 COMPETING ACCOUNTING PARADIGMS

Accounting is in a crisis stage where each of its paradigms is competing for hegemony within the discipline. Each paradigm will contain its own exemplar, theories, and methods. Conventional accounting paradigms can be considered under four broad categories:

1. The anthropological paradigm, which specifies accounting practices as the domain of accounting. The theories behind the anthropological/inductive paradigm deal with all attempts to explain and justify existing accounting practice (for example, the historical-cost approach, conventional cost-allocation techniques) and attempts to explain management's role in determining the techniques (Gilman, 1939; Hatfield, 1927, Ijiri, 1975; Paton, 1922). Those who adopt this paradigm argue in general either that the technique may be derived and justified on the basis of its tested use or that management plays a central role in determining the techniques to be implemented. Consequently, the accounting research objective associated with this paradigm is to understand, explain, and predict existing accounting practices.
2. The ideal-income paradigm, which specifies the measurement of performance as the domain of accounting. Theories that emerge from this paradigm present an alternative to the historical cost accounting system and include price level adjusted accounting, replacement cost accounting and present value accounting. Those who adopt this paradigm believe that the construction of accounting theory should be based on the basis of logical reasoning, and a concept of ideal income sought based on some method than the historical cost method (see Sweeny, 1936; Paton, 1922; MacNeal, 1939).
3. The decision-usefulness paradigm, which specifies the decision theories, the decision process of individuals, capital market reaction, information recipients' behaviour and economic events as the domain of accounting. The theories behind this paradigm include dealing with the different kinds of decision models associated with business decision making (for example; linear programming, capital budgeting, PERT etc.) and dealing with the different economic events that may affect a going concern (bankruptcy, takeovers mergers etc.). Those who adopt these theories believe that the crucial yardstick to be employed is the usefulness of accounting information to decision models. Information relevant to

a decision model or criterion is determined and then implemented by choosing the best alternative (see Beaver, Kennelly and Voss, 1968; Sterling, 1972).

4. The information-economics paradigm, which specifies the evaluation of information as the domain of accounting. This paradigm relies on statistical decision theory and on the economic theory of choice (see Marschak and Radner, 1972) with a focus on the traditional economic assumption of consistent, rational choice behaviour (Crandall, 1969; Feltham, 1968; Feltham and Demski, 1969). The basic premise of this approach is that information is an economic commodity and the acquisition of information amounts to a problem of economic choice.

The existence of these multiple paradigms and theories is consistent with Kuhn's perception of the early stage of science where before maturity we have a variety of paradigms with several competing schools of thought. These paradigms will continually be debated and argued. What is happening in accounting at the present time is an example of 'paradigm wars' which have taken place in the social sciences generally. Accounting has yet to find a unifying paradigm. With its different views and theories, debates and arguments and no one single absolute verifiable truth, we can safely say that accounting is a social science.

In chapter three we have already identified that companies, particularly in the developed countries, disclose information on the human resource, their impacts on the environment, communities etc. The next stage of this chapter will be to understand why organisations provide this information. In an attempt to develop a more informed theory of corporate social disclosure, our first instinct is to adopt the traditional (or conventional accounting) approach. This approach however, may have its limitations. The next section will discuss the limitations of conventional accounting theory and liberal economic democracy.

4.4 CONVENTIONAL ACCOUNTING THEORY AND LIBERAL ECONOMIC DEMOCRACY

Conventional accounting has almost always been associated with the liberal economic democratic (LED) conception (Gray et al, 1996; Chua, 1986). A simplified view of the liberal economic democratic conception envisages the world as being made up of equal individuals, free to act (liberal) and to express choice through actions in markets (economic) and actions in the political arena (democratic) (Gray et al., 1996). Based on neo-classical economic theory, LED has had a notable influence on the development of accounting theory. Neo-classical economics assumes an efficient market which, through the actions of self interested individuals ensures that finance, labour, information, physical capital and materials are put to the best economic use and hence generate maximum profit and economic growth via maximising efficient output from scarce resources (Gray et al., 1996).

Pristine liberal economy democracy assumes an equal distribution of power in society where no one individual can dominate the other. Gray et al. (1996) defined power as the ability to influence others. Based on these assumptions accounting theory seems to have accepted that its role is to provide 'neutral' information. Though societies may be capitalist, socialist or mixed, and markets may be monopolistic or firms exploitative, accountants are to take a neutral view by not evaluating these endstates so that self interested decision makers may maximise their returns and thereby maximise the economic efficiency that will ensure the maximum well being of society.

Gray et al. (1996) questioned the validity of accounting theory based on LED by arguing;

> "*If all agents were equal and if markets were information efficient and if this led to allocative efficiency and if this led, in turn, to economic growth and if this ensured maximum social welfare and is the aim of the society then accounting is morally, economically and socially justifiable and may lay claim to an intellectual framework.* Of course, this is not the case (page 17) (emphasis added).

Failings of the pristine liberal economic democracy model pointed out by Gray et al., (1996) include:

- all individuals are clearly not equal economically, equal politically, or free to act in abstraction from their background, experience and the system in which they operate;
- individuals cannot act independently of their framework and it is not individuals that exercise the real power but institutions (for example, states, governments, corporations etc);
- the model of LED has many internal contradictions, for example the links between individual self-interest (greed) and social welfare cannot be demonstrated; increases in income do not measure changes in quality of life; the measurement of society's wealth has many anomalies, increases in financial wealth say nothing about the distribution of wealth;
- the model of pristine liberal economy democracy makes no allowance for environmental matters except in so far they are presented in price.

This researcher believes that the limitations of liberal economic democracy mentioned above demonstrates that conventional accounting theory provides an inadequate basis on which to develop a corporate social reporting framework. The next section will goes on to critically assess the contribution of more refined corporate social reporting theories such as extension of traditional accounting and decision-usefulness theory.

4.4.1 Extension of Traditional Accounting

The proponents of this school of thought normally argue that because financial measurement is considered a universal measure, financial accounting must therefore be the appropriate medium for corporate social accounting. We know that not all things can be measured monetarily especially when it comes to corporate social disclosures, for example, the amount of pollution or noise. Thus Benston (1982) believes that accounting standards are not likely to play a beneficial role in social accounting because the measurements required for useful standards cannot be made. Schreuder and Ramanathan (1984) on the other hand disagree with Benston arguing that even though the measurements for externalities cannot be agree upon, this does not necessarily mean that it should be dismissed from the scope of accounting. Accountants have reached a compromise solution to other difficult areas of accounting (for example, inflation accounting, depreciation etc) and it is up to the accountant to similarly find the answer to the problem of measurement in social accounting.

Apart from annual reports, corporate social disclosures can be seen in other form of reports. Accountants are not the only ones who supply social information. General administration (especially the public relations division) of an organisation is another department who supplies social information. Traditionally accounting therefore does not necessarily provide the one and only avenue for corporate social reporting.

Another argument by the extension of traditional accounting proponents is that since users are already familiar with the current presentation, financial accounting must therefore be the right choice. Fifty years ago the amount of information in a financial report was limited. At that time companies were against including extra information for fear that users would not understand the report. Surprisingly, there are still a lot of people who can not understand a financial report. Typically, only a handful of managers and investors can read the financial reports. This shows that the current presentation of financial accounting is largely geared towards expert users such as financial analysts. Social information, on the other hand, is directed towards a wide range of users. Therefore, the traditional format of presentation should not be an avenue to present social information.

4.4.2 Decision Usefulness

Decision making has always been the main thrust for accounting development. The purpose of accounting according to the US Accounting Principles Board (1978) is "to provide quantitative information, primarily financial in nature, about economic entities, that is intended to be useful in making economic decisions". The Financial Accounting Standard Board (1978) similarly concluded that "the objective of financial reporting is to provide information useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions".

The basic line of argument for decision usefulness theory is that companies disclose social information to the traditional accounting users, the capital providers, because it is useful for them in making decisions (Spicer, 1978; Belkaoui, 1984; Dierkes and Antal, 1985). Assumptions made by these advocates were that increasing the quantity of information could serve to make the market more efficient and share prices may thus be influenced by social responsibility disclosure. They argued for additional disclosures that may be relevant to interested parties such as shareholders, employees and customers.

Research on decision usefulness studies of corporate social disclosures, especially ranking and effect on share price behaviour which focuses mainly on the needs of shareholders, was popular in the late seventies and the eighties (see Bowman, 1973; Benjamin and Stanga, Belkaoui, 1980, 1984; Aupperle, 1984). Despite the various studies conducted employing a decision usefulness approach to the investigation of corporate social reporting, results are not conclusive (Dierkes and Antal, 1985). Mathews (1993) stated that even though the findings are conflicting, it may be argued that the overall weight lies towards the view that disclosure of non-traditional information does have utility for shareholders and the security market because information content is established regardless of the direction in which the share prices move.

The inconclusiveness of the studies is due to the fact that corporate social reporting is not primarily focused upon and motivated by the needs, wants and whims of financial participants (see Booth, Moore and McNamara, 1987; Mathews, 1987; Owen, Gray and Maunders, 1987). Another reason is the problem of arriving at a suitable measure of social performance. Gray et al. (1996) asserted that the inconclusivness of this approach is due to the lack of any explicit theory underpinning the analysis performed. Development of corporate social reporting in this context has been viewed as essentially an extension of financial reporting to satisfy profit seeking investors. Corporate information is not only useful to capital providers but also to a wider audience (see Chapter Three). There are those who argue that the presence of social information in the financial statements does not influence decision making except when it has implications for the financial position of the company (see Anderson and

Frankle, 1980; Belkaoui, 1976). The recent re-emergence[2] and growth of ethical, or moral investment provides major implications for corporate social responsibility and disclosure (Rockness and Williams, 1988; Harte, Lewis and Owen, 1991; Gray et al., 1996). These investors are interested in the social and economic performance of business from moral and social criteria rather than solely from an economic perspective. Even though these investors are new players in the field, and the amount of funds invested is moderate, their high profile and new investment philosophy has attracted a wider institutional response.

Corporate social and environmental disclosure under the decision usefulness theory assumes a positive approach that the information provided is useful. Does anyone use this information for decision making? In reality, studies have suggested that the financial community find corporate social disclosures as better than useless but rank it as only 'moderately important'(see Belkaoui, 1984; Benjamin and Stanga, 1977; Firth, 1978,1979, 1984).

Kokubu, Tomimasu and Yamagami (1994) assumed that when the relationship between information providers and users (receivers) is already established (see also Kokubu in Yamagami (ed.), 1994), the information provided becomes very useful. They stressed that decision usefulness theory could be more effective for functional purposes if the relationship between the principal and the agent has been clearly established. However, the relationship between principal and agent is not clear cut in the social accounting sphere which makes this theory difficult to apply. Gray et. al. (1994) also confirmed that this theory even though mis-specified and under theorised, has the potential to raise the visibility of non-financial, non-economic factors in organisational reporting and accountability.

Having identified the limitations of corporate social reporting theories adopting a conventional accounting approach, this chapter will now proceed to presenting an alternative framework, accountability, which this researcher believes is more

[2] Miller (1992) has traced social investment origins from the Victorian era. The late sixties and early seventies saw the development of the social proxy movement in the US, which led to a growing number of ethical mutual funds/unit trusts.

appropriate for developing a corporate social reporting framework. However, an essential ingredient towards understanding the concept of accountability is the establishment of a social contract that defines the scope of accountability. Therefore, before proceeding to a discussion of accountability, we first need to establish the meaning of the term social contract.

4.5 SOCIAL CONTRACT

The concept of the social contract in corporate social reporting was first developed in the early seventies by Dahl (1973), Votaw (1973) and Shocker and Sethi (1973). It assumes that (a) society is dynamic and is forever changing and evolving; and (b) power is unequally distributed between corporations/institutions and society. Therefore, in order to achieve collective goals, society accepts some degree of overriding control over individual freedoms whilst the failure to deliver the expected outcomes may justify a revolt on the part of the general society. Mathews (1993) clarified that:

> *"Society (as a collection of individuals) provides corporations with their legal standing and attributes and the authority to own and use natural resources and to hire employees. Organisations draw on the community resources and the output of both goods and services and waste products to the general environment. The corporation has no inherent rights to these benefits, and in order to allow their existence, society would expect benefits to exceed the cost to the society.* (page 26).

Social contract is best explained by Shocker and Sethi (1973) as:

> *"Any institution - and business is no exception - operates in a society via a social contract, expressed or implied, whereby its survival or growth are based on: (1) the delivery of some socially desirable ends to society in general and (2) the distribution of economic, social or political benefits to groups from which it derives its power. In a dynamic society, neither the source of institutional power nor the need for its services is permanent. Therefore an*

institution must constantly meet the twin test of legitimacy and relevance by demonstrating that society requires its services and that the groups benefiting from its rewards have society's approval" (page 97).

The theories of social contract have been widely used in the social responsibility literature and are emerging strongly as a focal point in social accounting studies (see Patten, 1992; Roberts, 1992; Gray et al, 1987). Social contract in a neo-pluralistic society can be interpreted and manipulated in many different ways.

It is argued that without any form of business organisations, each individual in society would produce what they consumed, and there would be no co-operation between individuals in production. Business organisations are effective because they enable increased productivity through such things as economies of scale and division of labour (Donaldson, 1989). Nevertheless, if there is non-performance on behalf of corporations, consumers and the general public will suffer. For example, consumers will incur loss for the depletion of natural resources and increasing environmental pollution. Corporations, apart from accumulating wealth, will also acquire power (especially corporations which monopolise certain industries) which would enable them to interact with government and as a consequence handicap consumers and the public.

The Social contract is therefore an invisible covenant between the public and the organisation whereby the organisation is expected to deliver desirable ends to the public as a result of a transfer of legal rights from the public to the organisation. It is also reflected in the notion of human rights where a firm agrees to perform certain function in return for certain desirable rewards. Individuals within society are therefore prepared to allow business organisations to exist because they provide benefits to the society. Business on the other hand needs to be able to use resources from the society such as capital, labour and raw materials. Having identified the meaning of the term social contract, we turn our attention to accountability.

4.6 ACCOUNTABILITY

Accountability theory was introduced in the field of social accounting by Gray et. al. (1987) who proceeded to construct a general framework of social reporting based upon the concepts of accountability and the existence of a social contract between the organisation and various user groups in a neo-pluralistic society.

Gray et al. (1991) identified four major perspectives from which the development of CSR may be analysed with:

1. the extreme left wing of politics(the 'left-wing' radicals);
2. the acceptance of the *status quo;*
3. the pursuit of subject/intellectual property rights; and
4. the extreme right wing of politics (the 'pristine capitalist' or 'right-wing radicals').

They argue the second and the third group constitute the middle ground within which the theoretical framework of CSR can be developed (see also Gray, Owen and Maunders 1988). The 'social contract' concept is fundamental to this framework.

The two extremes are rejected because they share a belief in the irrelevance of CSR for other than strictly instrumentalist aims. For 'Pristine capitalists', according to Gray et al. (1988) "any imposed CSR will interfere with liberty and beyond a compliance with legally required disclosure should only be considered by companies to the extent that it helps the company"(p. 8), while for the 'left-wing' radicals "CSR must generally be considered innocuous legitimisation and thus a misleading irrelevance that is more likely to strengthen the present power distribution than achieve any other aim" (p. 8).

Gray et al. (1991) continue the analysis in focussing upon three themes which are (a) enhancement of corporate image, (b) discharge of accountability and (c) CSR as an extension of financial reporting to investors

Gray et. al (1991) rejected the first theme, the corporate defenders, because implications for the more procedural issues of corporate social reporting will be few. They also rejected the third theme, CSR as the extension of financial reporting to investors, as having any bearing towards the development of CSR because it is based on pristine liberal democratic economy. In a neo-pluralistic society where power and influence are widely spread and uneven, the distribution of and access to information also follows the same pattern. Gray et al. (1996) believe that information flow via representative democracy 'reflects, reinforces and/or helps to create those inequalities' but participatory democracy could help remove those inequalities or make them less pronounced and more transparent by which accountability could be more discharged.

Tinker, Lehman and Neimark (1991) considered as radical theorists, on the other hand disagree with Gray et al. Whilst they agreed that most exploration and practice of social accounting is grounded in liberal economic democracy which not only fails to achieve change but in fact prevents change, they "question the historical concept of a stable middle ground that can be safely extrapolated for future policy" (p. 28) presented by Gray et al. They are of the opinion that the middle ground is a contested terrain that shifts over time is unstable and will not 'simply coast into tomorrow'. They supported their belief with evidence from recent US historical studies of social responsibility accounting, demonstrating the shift of middle-ground ideology between different social eras. They believe that conflicts are structured and follow a discernible pattern of development. The radical theorists believe that the traditional relationship prevails. They are in disagreement with the current organisation of Western society. They also oppose the capitalist system with its reliance upon the market place which uses marginalist systems to ensure the profitability of business ventures (Mathews and Perera, 1996).

Tinker et al.'s (1991) argument basically rests on two tenets. First, that Gray et al. did not make any allowance for the fact that the 'middle ground' can change over time. Gray et al. actually acknowledged the 'moving target' nature of social responsibility (see Dowling and Pfeffer, 1975; Abt, 1977; Anderson, 1977) "responsibility changes over time and from place to place. It is dependent upon the social environment of the organisation" (p. 9). Second, according to Tinker et al. if one is to appreciate the dramatic shift of middle-ground ideology between different eras, it is essential to understand the social struggles and conflicts that have occurred between capital and other social interest. Tinker et al. appear to wrongly assume here that Gray et al. did not acknowledge the social struggles and conflicts that have occurred.

This researcher, concurring with Gray et al. (1987) believes that we live in a neo-pluralistic society with uneven distribution of power and uneven distribution of information. To combat this effect, this researcher also believes that the practice of developing participatory information, where it is the responsibility of those controlling the resources to provide a flow of information concerning their use of resources (being transparent) back to society (and the moral right of society to ask for it) is necessary. Even though the nature of moral rights and responsibility always changes and develops over time (and indeed is very difficult to establish with certainty) it does not mean that they do not exist and be ignored. In other words even though it is very difficult to establish moral rights and responsibility, accountability cannot be discarded. To remain of value, accounting must understand cultural changes and adapt to them.

What then is accountability? Gray et al. (1987) defined social accountability as "the responsibility to account for actions for which one has responsibility under an established contract" (p. 4). Williams (1987), defines accountability as "an obligation relationship created via a transaction in which one party is expected to give an account of its actions to other parties" (p. 170). Gray (1990) states that concept of accountability is "the right to receive information and the duty to supply it" (p. 23).

Accountability theory explains information disclosure practice in terms of rights and obligations of information providers and users or receivers. Accountability theory goes beyond the traditional accounting role of providing information for business decision making. It also goes beyond the traditional stewardship function. It is concerned with providing information that satisfies a broader set of users (see Gray et al., 1987, 1988, 1991, 1996; Laughlin, 1990; Roberts, 1991). Gray et al. (1996) see corporate social disclosure as a constantly changing notion designed to fill the gap between responsibility and accountability where the accountor/agent and accountee/principal can have several relationships and also change and swap places. A corporation, for example, is accountable to the members of the community. Members of the community on the other hand may be the employees of the business and are accountable for their performance to the management while the management is accountable to the employees for complying with labour law.

Accountability theory establishes the users' rights and the provider's obligation to furnish information. Users of information should play an active role in asking for what is needed. The company then is to provide the necessary information. The company role on the other hand, need to be a passive one. The company should furnish information when and only when needed (via a social contract) by the users. The company should not go beyond the scope of requirement, that is providing or disclosing more than what is needed. When a company plays a more active role in disclosing information, then it becomes legitimacy. For example, if an agent discloses information freely beyond what is required, then it should not be thought as acknowledging and discharging a non-existent accountability (see Gray et al. 1996) but is rather for the purpose of legitimising business.

Corporations are required by law to furnish information to the users of annual reports. Kokubu (1994) identifies law and morality as the foundations of social accountability. Complying with the law could be one of the reasons why corporations are disclosing social information. Law is viewed as providing the rules of the game that organisations have to follow.. It then becomes the terms of the social contract between society and organisation (Gray et al., 1987). If law is the main factor why corporations are disclosing social information, then why is it other companies in the same industry group and of the same sizes are not disclosing? Could it be that they are not following the rule and thus not complying with the law? Law does not cover all the terms of a business's social contract. The recent public rise of interest in the issue of transporting live animals (Unerman, 1996) for example, indicates that the law does not keep pace with changes in society's values. If a business just looks to the law in identifying its social contract, and its stakeholder's expectations, its legitimisation strategies are unlikely to be very successful as they will not be addressing all of the stakeholder's expectations.

From the above arguments we can see that accountability theory is based on social and moral obligations where society dictates the rules of accountability, not the organisation. The organisation only furnishes information that is required by users. The problem is - to whom is the company accountable and for what? The potential groups of users are so enormous that it is impossible for companies to cater for and satisfy the whims of all users. Gray (1990) says that companies should be accountable to all users based on moral obligation. Tricker (1983) on the other hand considers accountability only to those that have legal rights. He asserted that unless the principal can enforce the accountability then no accountability is due.

The inclusion of social and environmental data in annual reports provides more than just information (see Williams, 1987; Lehman, 1995), "it establishes and articulates an accountability relationship between corporations and others" (Lehman, 1995, p. 408). Gray et al. (1996) explain that formal information provided will increase organisational transparency which will have the effect of:

1. helping society to reconstruct the organisation (see, for example, Hines, 1988). More aspects of organisational life will be made visible and the consequences of organisational activity and the actions of society with respect to the organisation will become more transparent;
2. promoting 'information inductance' whereby the type of information one is required to report tends to influence the behaviour of not just the preparer but also the creator and transmitter of the information.

The transparency engendered by accountability can have the effect of bringing the organisation and the results of the actions of the organisation into closer conjunction. Accountability is a result of responsibility and, in turn, increases responsibility. Accountability, thus, is essentially a mechanism, the development of which contributes to the normative position of a more justly organised and better informed society.

Accountability theory, however, assumes that we live in a perfect world. It assumes that the organisation will supply, no more and no less, whatever information is demanded by the users. The organisation has not much room to manoeuvre.

However, this is not always the case. Companies often play an active role as information providers. This will lead us to legitimacy. Accountability theory assumes that organisations will provide social information because it is their responsibility to do so and because society has a right to it. In the real world, companies may provide information for a combination of reasons. There is no one single all embracing reason for companies disclosing social information. There is indeed a further complex set of socio and political theories of social disclosure which include legitimacy theory, stakeholder theory and political economy theory which are not so much separate and competing but rather overlapping. Legitimacy theory and stakeholder theory are seen as overlapping within the framework of political economy assumptions (Gray et al., 1995a). Corporations, for example, may provide social information because they are under pressure from users, advocacy groups or the general public. Such disclosure may also be interpreted as a means of establishing or protecting the legitimacy of an organisation by influencing public opinion and the public policy process.

4.7 LEGITIMACY THEORY

If a company is to survive it must legitimise its existence in the eyes of the society. Social disclosure is an attempt to legitimise the company by projecting an image to society that the company is socially aware (Abbot and Monson, 1979; Patten 1992).

Patten (1992) stressed that the greater the likelihood of adverse shifts in public policy, the greater the need to attempt to influence the process through social disclosure. Companies will exercise their power in the public policy arena by attempting to influence social concern via disclosure. This proactive stance suggests that if corporations can influence policy then they may possess an undemocratic concentration of power and influence. Guthrie and Parker (1989) on the other hand suggest that legitimacy theory is largely a reactive process. The organisation's aim is to demonstrate congruence between the social values inherent (or implied) in their activities and societal norms. Thus, if a company reacts to demand for disclosure it can be perceived as having less power or influence than that held by the public policy arena.

Perhaps the best definition of legitimacy is provided by Lindblom (1994):

> *"a condition or status which exists when an entity 's value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exist between the two value systems, there is a threat to the entity's legitimacy"* (page 2).

She then identified four strategies that a corporation could adopt.

Figure 4.1: Lindblom's Four Legitimation Strategies

Strategy	Application
1. Educate the 'relevant public of any changes in the organisation's performance and activities	When there is a legitimacy gap which arose from actual failure in the organisation's performance
2. Change the 'relevant public's' perception of performance	When a legitimacy gap arose because of misperception
3. Manipulate perception by deflecting attention from the issues concerned	When the 'relevant public' needs to be manipulated by focusing on other matters
4. Change the external expectation of it's performance	When the public expectations of an organisation's responsibilities are incorrect

Legitimacy theory assumes that social or environmental information is disclosed as a result of a reaction to external factors. These factors may be social, economic or political. To legitimise the organisation's actions, social and environmental disclosures are made. Patten (1992) for example has linked the international rise in environmental disclosure, particularly within the petroleum industry, with a concern with legitimisation. We can therefore see that social disclosures made by corporations are designed to please the readers or users of the financial statements. It is a form of advertising to promote or to enhance the organisation's image. It is no different from 'window dressing', or an attempt to attract the attention of users of information to a particular issue while the diverting attention from the major issue.

The disclosure could also be seen as a reaction to a potential threat, for example, public pressure which may lead to legislation. The growth of environmental disclosure in the late 1980's and 1990's can be seen as an attempt to act as if in response to environmental pressure but actually represents an attempt to control the environmental agenda in order to permit business to make profit (see Gray et al., 1995). Gray et. al. (1988) nicely summarise that financial accounting does not need legitimacy because it is bounded by law but corporate social reporting on the other hand is not bounded by law, it therefore needs legitimacy.

Social and environmental information could easily be distorted by management. Company's accounts can be a powerful tool in constructing an image of the company's behaviour. Managers therefore may seek to use these tool in an attempt to legitimate their behaviour where actual behaviour is at variance with stakeholders' expectations. Ulmann (1985) stated that what companies report in their accounts with regard to social and environmental activities is not always an accurate portrayal of performance (see also Rockness, 1985; Wiseman, 1982; Ingram and Frazier, 1980). This corresponds to Lindblom's second legitimation strategy of not adjusting behaviour to match stakeholder's expectation, while trying to create an image through the use of social and environmental disclosure that behaviour has been adjusted. Adopting such strategies, companies would ignore the perceived expectations of the stakeholders and possibly engage in activities which the stakeholders believe to be wrong.

Organisations and society in complete harmony (Walton 1983) will share a mutuality of interest and therefore what is good for one must be good to another. Therefore, the organisation is considered as the best place to judge what kind of information is relevant and should be reported.. If companies are in the best position to disclose social information then, are they also not in the best position to disclose other financial matters? If they are, then we do not need regulations on financial reporting. On the other hand, if society does not trust the companies on the financial matters, then the society will also have no trust on the social matters. Even though the nature of social information makes it very difficult to quantify, which will make practice and enforcement difficult, mandatory social reporting (at least on certain areas) could be the answer. Additionally, in a complex world, even though a social contract exists, the social information provided could be one sided - information provided could benefit one party but be useless to another. Communication between the two actors, providers and users of information, would then be necessary to ensure social information provided is useful to all interested parties. The users of information, those who have a stake in the organisation, will need to identify what kind of information is needed and why it is necessary. This leads to a consideration of stakeholder theory

4.8 STAKEHOLDER THEORY

A stakeholder is defined as 'any group or individual who can affect or is affected by the achievement of the firm's objectives (Freeman, 1984). Gray et. al (1987), state that:

> *"Stakeholder (community with respect to social concerns, community with respects to environmental concerns, employees, and consumers) has a right to particular information for a particular decision. Those with a 'social' interest or 'stake' in the organisation should be provided with relevant information in social reports"* (page 17).

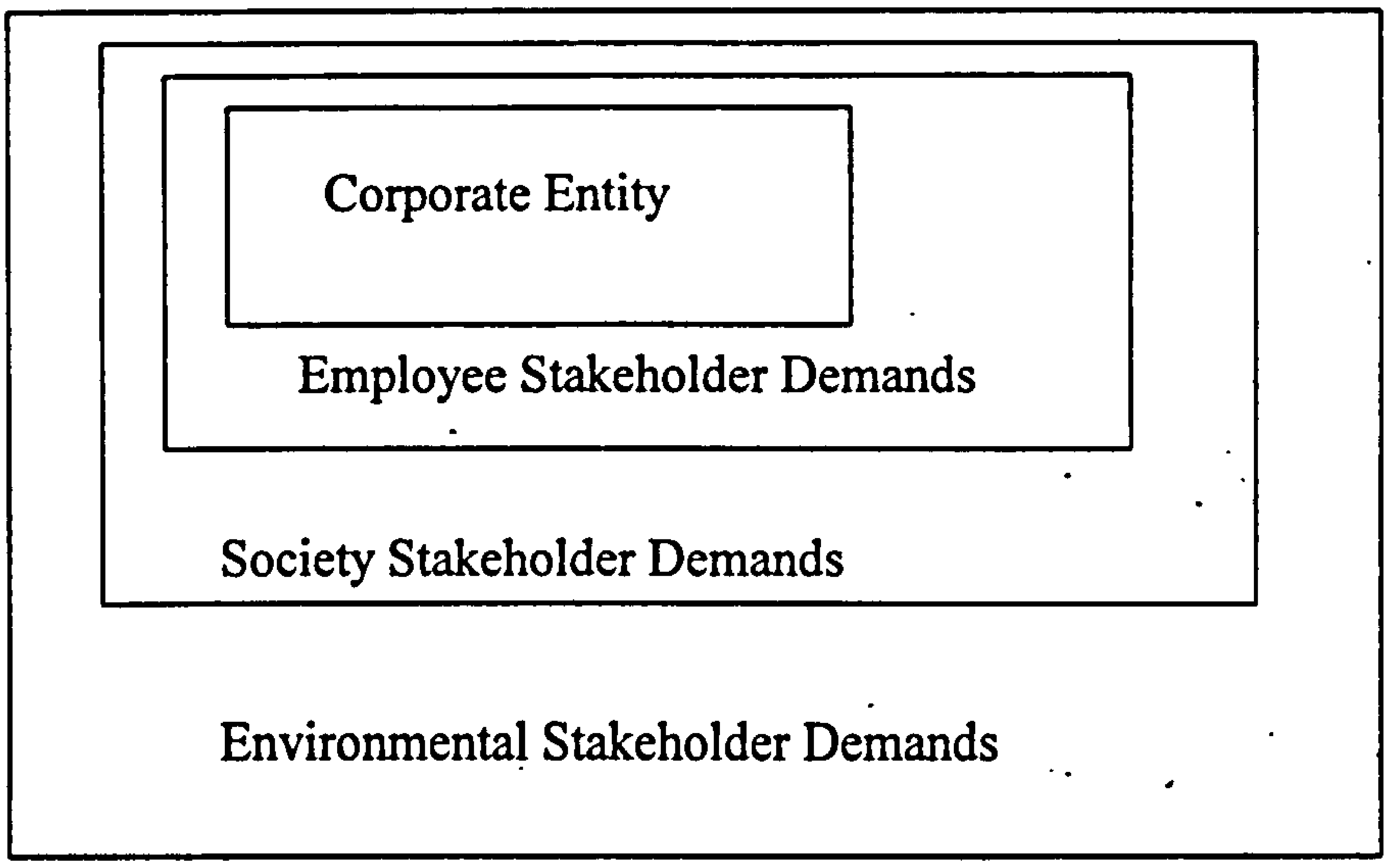
Gray et al (1991) determined several users' needs characteristics. In stakeholder theory the parties are the organisation and users of information which are determined by habit, convention or assumption and the rights to information determined by assumption or equated need. Stakeholder theory, as explained by Ullmann (1985) and Roberts (1992), is the management's' perspective of giving information to users so as to maintain or continue the success of the company. The corporation's continued existence and success need the constant support of the stakeholders. Since it is the stakeholders who hold the power over the company's resources, it is therefore crucial that the approval of stakeholders is obtained and the corporation's activities need to be adjusted to gain that approval. Gray et al. (1995), view social disclosures as part of the dialogue between the company and its stakeholders and suggests disclosure has been a successful medium for negotiating this relationship. Gray et al, (1996), for example, have some evidence that the environmental disclosures are being used by companies as an attempt to negotiate the concept of 'environment', and to determine the companies' relationships with society in general and environmental pressure groups in particular.

Guthrie and Parker's (1987) user utility model states that corporate stakeholders demand certain information and based on these demands, corporations supply the information. Gray et al. (1991) suggest that social reporting is assumed to be demand driven with content of information determined by the imputed or estimated user demand. It is argued that if it is the stakeholders who demand the information then corporations of the same size and same industry group should be providing the same social disclosures. This is certainly not the case, for example: oil or chemical companies, of the same size fail to disclose the same information. Epstien and Freeman (1994) and Patten (1991), argued that even though information is needed by some stakeholders, corporations are not disclosing what is required. Ulmann (1985) identified several reasons for these shortcomings. First, is the strategic posture of the management. If the strategic posture of the management towards social demands is negative, the amount of disclosure will be less or indeed there will be no disclosure at all. Ulmann suggests that a corporation with this posture "is neither involved in continuous monitoring activities nor searching for an optimal stakeholder strategy". Second, the power of the stakeholder. Organisations are pressured by the intensity of stakeholders demands. The more powerful the stakeholders, the more will be the pressure on the management to disclose social and environmental information. Third, is the economic performance of the organisation. The amount of social disclosure may be related to the economic performance of the organisation. Social responsibility is regarded as a secondary goal when compared to the company's continued existence. When the organisation's economic performance is sound social activities may be expected to be on the increase. Mills and Gardner (1984) concluded that companies are likely to disclose social responsibility performance when their financial statements indicate favourable financial performance. A couple of studies by Bowman and Haire (1976) and Preston (1978) provided results which support a profitability - CSD relationship (but see Cowen et. al., 1987; Davey, 1982; Ng, 1985). Roberts (1992) on the other hand has found evidence that there is a relationship between lagged profits and corporate social disclosure (but see Patten, 1991).

Epstien and Freeman (1994) emphasised that before a demand for social disclosures is met the management must identify whether stakeholders should have this information and whether they are using existing social disclosures in making decisions. If this filtering is not practised, given the numerous stakeholders' groups, the amount of demands will be enormous and annual reports will be full of information valuable to a few but useless to most due to information overload. Managers will almost certainly weigh the expectations and beliefs of some stakeholder groups more highly than those of others. In general, the views of those stakeholders with more power will tend to dominate (see Roberts, 1992; Ulmann, 1985; Gray et al., 1995) with different types of businesses having different dominant stakeholders groups.

Basically stakeholder theory identifies the ability of management to evaluate and supply social and environmental information according to the demands of the more influential users. These demands are met when management identifies that the information is useful in decision making. Failure to do so could result in overflow of information. Organisations are continually seeking ways to manage new and emerging issues with their stakeholders while attempting to assess the extent of the power of those stakeholders (Roberts, 1992). We can therefore see that stakeholder theory goes beyond traditional decision usefulness theory and is more applicable to corporate social reporting. In decision usefulness theory, information is provided to the main users of the financial statements namely the financial analysts, creditors and bankers. Stakeholder theory advances a few steps further by recognising external influences. These external influences may include society, consumers, lobby groups and environmentalists. These influences can be seen clearly in Roberts's (1992) framework as shown in the figure below.

Figure 4.2: A Stakeholder Framework



Adapted from: S. Lavers: Unpublished Master of science thesis, University of Dundee, 1995

The figure above illustrates the extended range of those stakeholders in society that are recognised as able to influence companies and demand corporate responsibility. In stakeholder theory, the information provided is expanded to satisfy the needs of not only the employees but also the community and non-governmental organisations. These stakeholders are not in separate groups by themselves. They are interrelated and interwoven. For example, an employee may be a customer who is part of the society and is interested in the environment, such an individual would definitely have a 'stake' in the organisation.

The above model recognises the dynamic and complex nature of the interplay between the organisation and its environment. This interplay between the organisation and its stakeholders according to Gray et al. (1996) can be seen as a socially grounded relationship that involves responsibility and accountability. Stakeholder theory and legitimacy theory when seen as two overlapping perspectives set the framework for political economy theory (Gray et al., 1995a).

4.9 POLITICAL ECONOMY THEORY

In essence, the 'political economy' is the social, political and economic framework within which human life takes place (Gray et al., 1996). Cooper and Sherer (1984), stated that a political economy of accounting emphasises the infrastructure, the fundamental relations between classes in society. Political economy recognises the institutional environment that supports the existing system of corporate reporting and subjects to critical scrutiny those issues (such as the assumed importance of shareholders and the securities market). It represents a proactive attempt by the organisation to portray its own view of its social and political constituency. Guthrie and Parker's (1990) political economy approach observes accounting reports as social, political and economic documents. They serve as a tool for constructing sustaining and legitimising economic themes which contribute to the corporation's private interest.

Corporations use these reports to provide information that serves the corporation's political or ideological goals. Corporations at times use these disclosures to define themselves and project beliefs, norms, values and perceptions (see Tinker and Niemark, 1985). If such is the reason for disclosure, then why is it during economic slowdown corporations are not disclosing as much? Could it be that the company is not participating as much, or could it be that the company, during the 'lean years' does not believe that such disclosure is necessary? It could be argued, if such is the case, that information disclosed by corporations is only intended to attract public attention or enhance corporate image. On the other hand, if disclosure is intended to project a company's beliefs, norms, values and perception, then the information could have little or no value to the stakeholders in making economic decisions. Of course some companies may be disclosing information because of ethical reasons but this tends to lead us into perceiving that the company is trying to deflect attention to escape pressures - organisations may want to be left alone by public pressure, governments, environmentalists and others. These groups, on the other hand, want to exert more control upon the organisation via disclosure.

Cooper and Sherer (1984) suggest that classical political economy revived due to an attempt to understand the how traditional accounting system operates in a social, political and economic context and consequently to design an ideal accounting system. Arnold (1990) a proponent of classical political economy, suggests that political economy should attempt to explain the role of the State in the mediation, through regulation, of conflicting interests. This could be interpreted as if the State is acting in the interest of disadvantaged groups in order to maintain legitimacy (Gray et al, 1996). Voluntary social disclosure made by the corporation, according to the classical political economist, is nothing more than self interest. Voluntary social disclosure could also be seen as if the corporation is responding to pressures but in actual fact the corporation is trying to gain control or divert the agenda away from the public so that it could continue to protect its interest and accumulate wealth (see Gray et. al., 1995).

Gray et. al. (1995) see political economy theory as the combination of legitimacy and stakeholder theory in that "corporate social reporting is generally based on a recognition that the economic is only one element of organisational life and this needs to be interwoven with recognition of the social and political" (p. 52). Gray et al. believe that the organisation is placed in a neo-pluralistic world where there exists individuals, groups, publics and States in the organisation's substantial environment who are influenced by and influence the organisation. In a neo-pluralistic world there is unequal distribution of power and conflicts of interest exist. Gray et al. (1996) see political economy as the power of society to pressurise organisations into disclosure on one hand, while on the other, the desire and ability of the organisation to use information (particularly social information) to legitimate, to deflect criticism and to control the debate being held in the wider community.

The discussion of conventional accounting theory approaches such as extension of traditional accounting and decision usefulness, towards corporate social reporting suggests a framework that is mis-specified and therefore has not much promise. We have argued that social information provided by an organisation should provide not only on economic perspective but also address the organisation-society relationship. Therefore a social political theory approach towards the development of a corporate social reporting framework would be more promising. The accountability framework presented by Gray et al. (1987) even though it has some limitations also has great explanatory potential. Recognising the neo-pluralistic society with its uneven distribution of power and information, corporations have to be more transparent and should be responsible to provide the flow of information concerning their use of resources back to society. Based on these assumptions and theories, we will now consider the corporate social reporting theory relevant to Malaysia.

4.10 FRAMEWORK APPLICABLE TO MALAYSIA

Conventional accounting theories do not offer much hope for developing corporate social reporting in Malaysia. The early approach based on a rationalisation of current practice is inadequate as the Malaysian current practice is based on an imported system and does not reflect the true needs of Malaysia. The true income approach could be useful if it is decided that social welfare, rather than monetary profits, is the goal of an organisation. However, in practice, it has not been found possible to measure 'true income' in financial terms and it would be even more difficult to measure 'social welfare' based on economic shadow 'prices'. The user needs approach tends to consider some users interests more important than others. The dominance of one user group will influence disclosure. Additionally, the user-needs approach concentrates on the needs of each user group separately, and does not deal with the overall social value. The information economics approach of 'users may demand certain information and companies will supply but at a cost' may be useful in developed countries. However, because the market place in Malaysia is not yet efficient, to make users pay for information would increase irregularities. Moreover, not all potential users know what information is potentially available

Whilst Malaysia practices representative democracy, where the people elect representatives to speak and act on their behalf, nevertheless the power of votes is uneven, unjust and therefore open to abuse. In Malaysia there are many sources of power and influence in society. Power is not in the hand of a single individual or group but equally power is not evenly distributed. Certain individuals or groups (for example, politicians or corporations) may have more power than others in influencing political, economic or social matters (neo-pluralism). The distribution of, and access to, information in general and accounting in particular also follows this asymmetry (Gray et al, 1996). Therefore, to smoothen the uneven distribution of power and to develop a fairer and more just distribution and access to information, the accountability approach should be developed.

Ghartey (1990) believes that since accountability is one of the fundamental prerequisites of the development process in the developing countries, citizens should not rely solely on politicians and public officers to rescue their economies from ruin and bring about development. They themselves have to play an active role.

Development will almost certainly result in the use and exploitation of resources. Malaysia's post 1990 policy with its renewed emphasis on growth, industrialisation and modernisation, could unfortunately unintentionally create problems such as exploitation and depletion of natural resources. Effective and efficient utilisation of management and resources falls within the domain of accountability. It would be essential for corporations to ensure that they are monitoring, managing and using resources effectively and efficiently. Attention has to be focused on a broader corporate social responsibility and accountability.

Malaysian society should no longer confine its expectations for business to the fundamental task of producing goods and services and providing jobs. Society must also expect business to attend to the human, environmental and other social consequences of its activities as they affect a broad constituency of employees, consumers and local communities. The rise of consumer associations, environmental and pressure groups in Malaysia is evidence that society is already aware of the consequences of business corporations on society and is demanding corporations to be accountable not only to financial providers but also the wider public. These are the factors influencing the empirical work carried out in this project, that is to find out the nature of management attitudes towards discharging their accountability. Additionally, recognising the importance of the fast growing Malaysian market, the empirical work also seeks to investigate the extent of user needs and the degree to which they are being met, focusing particular attention on the analyst/stockbroker group. Interpretation of the results of this analysis will be informed by insights derived from stakeholder, legitimacy and political economy theory. Particular weight will be placed on stakeholder theory in developing the 'user needs' orientation.

> *"CSR does hold out the possibility for the development of accounting in a way which both contributes to and reflects the sort of democratic society in which individuals are better informed and more empowered, in which the inequalities of wealth are potentially exposed and the inequalities of power are somewhat reduced"* (Gray et al., 1996, p. 50).

However, to understand the society we live in, the society - organisation relationship and the roles that accounting plays means that as well as looking at the practice of CSR, we need to go another step further - we also need to look at the absence of CSR. Gray et al. (1996) indicate that

> *"the absences are examples, it would seem, of the successful exercise of power and influence by organisations (and perhaps states) to keep them unfettered by society. They are thus examples of failure of democracy - of exercise of unequal power in society'* (p. 50).

It is against this background that this thesis is developed.

4.11 CONCLUSION

The failure of conventional accounting and pristine liberal economic democracy as a means of developing CSR leads to the development of alternative frameworks. Following an alternative framework i.e. social contract and a neo-pluralistic conception of society, corporate social reporting theories are developed.

CSR theories can be seen from two different perspectives. One from the management and the other from the users' perspective. The traditional accounting approach concentrates mainly on providing information to users. Decision usefulness goes a step further by providing useful information for decision making. Stakeholder theory takes the management's point of view of providing useful information for decision making to more powerful users. Accountability theory assumes the demand for information by users and the duty of the organisation to supply the information demanded. It is an essential mechanism that could contribute to a more just organisation and a better informed society. If, however, information supplied is more than demanded, it becomes legitimacy. Legitimacy theory assumes that, in order to exist, the organisation must operate to a value system which is commensurate with the society's own value system. Political economy theory represents a combination of stakeholder and legitimacy theory. It provides the social, political and economic framework within which human life takes place.

There is no single theory that is all embracing. Corporations disclose different amounts of social information for a combination of reasons. There is no one single reason for a company disclosing social information (Ullmann, 1985). We cannot consider and treat social disclosures as homogeneous. Each single disclosure could be for a different reason. We have to treat each item separately. The disclosure of information about human resources may be for legitimacy purposes. Disclosures on the environment could be because of political economy reasons, etc. Whatever the reasons, it is the management who decides what to disclose and what not, or if there is no disclosure at all. Corporate social reporting in Malaysia is also expected to follow such a pattern.

CHAPTER FIVE

METHODOLOGY

5.1 INTRODUCTION

Chapter Four identified accounting as a social science. As a social science the application of conventional scientific research methods used in natural science may not be appropriate to understand social behaviour (see Tomkins and Groves, 1983). Therefore a more naturalistic approach that stresses the importance of social science should be employed, for example an ideological approach. An ideological approach views society realistically. It is concerned with developing an understanding of the way in which the individual creates, modifies and interprets the social world in which he or she finds themselves (Burrell and Morgan, 1979). Burrell and Morgan (1979), stressed that the "naturalistic ideological approach emphasises the relativistic nature of the social world to such an extent that it may be perceived as 'anti-scientific' by reference to the ground rules commonly applied in the natural sciences".

Tomkins and Groves (1983) noted that a naturalistic style of enquiry would be more appropriate in accounting because of the influence of accounting reports (and accounting research) on human behaviour and human purposes. In corporate social reporting, the question of *what, how* and *why* companies are disclosing or not disclosing social and environmental information together with the implication that accounting theory and research may have contributed to social and environmental problems may inevitably lead to a more naturalistic approach (Lavers, 1994).

This thesis examines corporate social reporting practices of 100 Malaysian companies and addresses three research objectives. The first objective examines social disclosure issues from a descriptive standpoint, that is the extent of corporate social reporting in Malaysia, which includes: what is disclosed, how much is disclosed, and by whom disclosure is made. The second objective is to determine the factors that influence corporate social reporting practice such as size, industry and country of ultimate ownership. The third objective is to investigate the motives of companies which are disclosing, or not disclosing, social information. The first objective is to be achieved by content analysis. The second objective by using the statistical package SPSS in order to investigate the influence of key variables on disclosure patterns. The third and final objective will be accomplished through personal interview.

5.2 RESEARCH HYPOTHESES

Eight research questions are advanced to assess the influence of corporate characteristics on corporate social disclosure. These questions are based primarily on prior research and are designed to reconcile the disparate findings of prior research. A pair of hypotheses, incidence and amount of social disclosure, is determined for each corporate characteristic. In alternate form, the following relations are tested:

Company Size

- **Hypothesis 1:** companies which provide social disclosure are larger in size than those which do not;
- **Hypothesis 2:** there is a positive association between the size of a company and the amount of social information disclosed.

Profitability

- **Hypothesis 3:** companies which provide social disclosure are more profitable than those who do not disclose social information;
- **Hypothesis 4:** there is a positive association between profitability and the amount of social disclosure.

Industry

- **Hypothesis 5:** incidence of corporate social disclosure varies among primary industries;
- **Hypothesis 6:** amount of social disclosure varies among primary industries;

Country of Ownership

- **Hypothesis 7:** incidence of corporate social disclosure varies according to country of ownership;
- **Hypothesis 8:** amount of corporate social disclosure varies according to country of ultimate ownership.

5.3 RESEARCH DESIGN

Data from the top 200 Malaysian companies for 1993 (Extel Financial Asia Pacific Handbook, 1993) were used to analyse social disclosure by way of content analysis. Social information is measured for four major areas: human resource, community involvement, product and environment. Annual reports were examined for three types of social reporting disclosure: monetary, quantitative and qualitative.

5.3.1 Data Source

The data source for the research is corporate annual reports, which provide the principal means for corporate communication of activities and intentions to stockholders and are the primary source of social reporting by firms. The annual report has been the source for virtually all previous corporate disclosure research (Barrett, 1976; Cerf 1961; Singhvi and Desai, 1971; Wiseman, 1982) as well as for most social responsibility disclosures[1]

Letters were mailed to each of the top 200 companies requesting a copy of their annual reports. Some reports were obtained from the Malaysian Industrial Development Authority's (MIDA) London Branch. A total of 100 reports were collected. A number of companies could not send their annual report because they were out of stock. Others did not response for unknown reasons.

Annual reports received were used as a data source since social information is presented in many different ways in various sections of the annual reports. In some

[1] but see Zeghal & Ahmed for alternative disclosure practice.

cases, social information is buried inside the report among other material which makes it difficult to locate (e.g. in the operational review section). Furthermore, whilst some companies disclose information simply as a passing statement, in a corporate calendar or statement of objectives for example, others devote several sections of the annual report to social information disclosure.

5.3.2 Dependent Variables

Gray et al. (1995b) identified 23 variables, which range from the environment, consumers, energy and community, to employment in South Africa. Modifying Gray's variables to suit the Malaysian context (for example, statutory particulars of pension commitments, employment in South Africa etc., are not applicable in the Malaysian environment), a total of 16 dependent disclosures were used in this study. The dependent disclosures were further classified into four different major categories namely human resource, community involvement, product and environment (see, for example, Teoh and Thong, 1984; Andrews et al., 1989; Meshwari, 1992; Gray et al., 1995; Hackston and Milne, 1996). The first major category, human resource, consists of six items. The second, community involvement, consists of four items. While the third, products/services, and the fourth category, environment, have three items each. A list of disclosure items by category is shown in Appendix 1.

5.4 CONTENT ANALYSIS

Content analysis can be described as a research technique for the objective, systematic and quantitative description of the manifest content of communication (see Holsti, 1969; Krippendorf, 1980). Content analysis involves selecting categories within the context of the content material (Ingram and Frazier, 1980; Ahmed and Zeghal, 1987; Guthrie and Parker, 1990; Weber, 1990; Previts et al., 1994). As a prerequisite, a list of definitions is needed (Gray et al., 1995b). These definitions that could identify *what is* and *what is not* corporate social reporting are crucial to this research as they determine the objectivity of the research (see Appendix 2).

A rating sheet was constructed to evaluate corporate social disclosure (see Figure 5.1) The purpose of this procedure is first to measure objectively the information contained in the disclosure and second, to provide a systematic numerical basis for comparison.

Figure 5.1: Social Disclosure Instrument

Company name
Revenue
Industry

Market capitalisation
Profit
Country of ownership

Human Resource		**Community involvement**	
No of Employees		Education	
Training and development		Charity	
Employee Awards		Sports and culture	
Employee Welfare		Health, hard core poor	
Employee Safety		**Total**	
Employees option scheme			
Total			

Product		**Environment**	
General statement		Pollution	
Product quality/safety		Waste	
Research and design		General	
Total		**Total**	

Type of disclosure	
Qualitative	
Quantitative	
Monetary	

Using a recording instrument with yes/no answers to standardise data collecting, the first task was to analyse four aspects of CSR. Each annual report was reviewed to determine whether it contained any social disclosure. Those reports that did contain disclosure were then re-examined to determine what type of reporting was used (qualitative, quantitative, monetary). Measuring social disclosure was based on the existence and the degree of specificity of each of the 16 items. A number was assigned to an item if it was present in the disclosure. One would be assigned if an item is present and zero was assigned for an item that was not present in the disclosure.

5.4.1 Number of Sentences

To provide a richer set of data other than incidence of disclosure, amount of disclosure is also investigated. To determine the amount of disclosure, one could employ words, sentences or number of pages as the unit of analysis. Whereas determining the number of pages is the easiest technique to employ, it could not only cause loss of information, but is also difficult to interpret. Counting the number of words is not only tedious but it is also difficult to assign the words to a category (but see Guthrie and Mathews, 1985, for further debate on this issue). This research therefore employs a count of the number of sentences in order to determine the amount of disclosure. The assumption was that each sentence of disclosure is a grammatically self-contained speech unit expressing an idea, claim or assertion. It seems logical that the number of ideas, claims or assertion would be more significant than the number of lines. The numbers of sentences, however, are only counted for each major category of disclosure because one sentence could include more than one subcategory. Thus, the number of sentences are only allocated to human resource, community, products or environment but not their sub-categories of employee safety, welfare, donations, education, product safety and landscape etc. The sub-categories are identified as yes, if these are mentioned and no, if they are not.

To ensure the reliability of content analysis, Krippendorf (1980) suggests stability, reproducibility and accuracy should be employed. To assess stability, a test-retest procedure was employed by the same researcher two weeks after the first test. The results are identical. To assess reproducibility and accuracy, a sample of data was given to the supervisor, who measured the extent to which coding produces the same results, to check its integrity.

5.4.2 Explanatory Variables

The explanatory variables were chosen on the basis of prior research (see Chapter Three for a fuller discussion). The explanatory variables are size of the firm, profitability, prime industry membership and ultimate country of ownership.

5.4.2a Company Size

Prior research (see Trotman and Bradley, 1981; Cowen et al., 1987; Roberts 1992) assumed that corporate size would be related to social disclosure because larger firms are more likely to be scrutinised by both public and socially sensitive special interest groups. In addition, larger firms have more stockholders who may have an interest in corporate social reporting and are more likely to use formal communication channels to relate results of social endeavours to interested parties (Roberts 1992). Measurement of size is defined as market capitalisation as listed in Extel Financial Asia Pacific Handbook 1993.

5.4.2b Profitability

A number of prior studies have tested the relationship between profitability and corporate social disclosure (Bowman and Haire, 1979; Abbott and Monsen, 1979; Cowen et al., 1987; Roberts, 1992; Harremans et al., 1993). Bowman and Haire, for example, stated that corporate profitability has been postulated to reflect the view that social responsiveness requires the same managerial styles as that necessary to make a firm profitable. Cowen (1987) on the other hand believes that management skills, such as dealing with the environment and the ability to meet social pressures and societal needs, are necessary for the company to survive in today's corporate environment. In this study, profitability is measured according to the firm's return on assets (Net profit before tax/ Total Assets).

5.4.2c Industry Classification

Prior research assumes that certain industries are expected to exhibit more social disclosure because of factors such as greater governmental pressure (see Cowen et al., 1987), a desire to enhance corporate image, the influence of political visibility and a need to ward off undue pressure and criticism from social activists (see, for example, Patten, 1991; Hackston and Milne, 1996). In the current study, industry is represented by seven indicator variables (see Table 5.1).

Table 5.1: Industry Groups

	Industry
1	Trading
2	Finance
3	Construction
4	Plantation
5	Manufacturing
6	Properties
7	Consumers

5.4.2d Country of Ownership

Prior research also has found mixed results in terms of the relationship between the country of ownership and social reporting disclosure practice (see Guthrie and Parker, 1990; Roberts, 1991; and Teoh and Thong, 1984). Guthrie and Parker (1990), for example, believe that companies from different countries report differently due to them consciously or unconsciously developing a series of subsystems of social disclosure to match the perceived importance of constituents, and their relationship and the necessity to demonstrate a constructive response to public expectations or as a strategy that may delay or avoid imposition of regulation. For this study, ultimate country of ownership is represented by four indicator variables.

Table 5.2: Country of Ownership Indicator Variables

	Country
1	Malaysia
2	Europe
3	USA
4	Others

5.4.2e Disclosure Type

Annual reports were examined for three types of social reporting disclosure based on prior research: monetary, quantitative and qualitative. Several studies have used similar criteria to measure the types of disclosure (Ernst and Ernst, 1978; Beresford and Cowen, 1979; Ingram and Frazier, 1980; Wiseman, 1982; Ahmed and Zeghal, 1987; Cowen et al., 1987; Freedman and Wasley, 1990; Guthrie and Parker, 1990).

5.5 PERSONAL INTERVIEWS

A major aim of this study is to investigate the driving forces behind corporate social reporting and, in particular, to explore the perceptions of two actors in the exchange of social information between companies and capital markets - the 'preparers' and financial analysts. Whilst the importance of user groups other than capital providers in the development of social reporting is acknowledged it is felt that at this stage in the development of the Malaysian economy, financial analysts are likely to have more clearly articulated information needs, particularly as regards 'accounting based' information. Furthermore, capital markets clearly have an important role to play in directing investment towards socially responsible corporate activities (see Chapter Two).

Although observation and mail questionnaires could probably be employed more easily, interviewing is without doubt generally the most appropriate tool for social surveys (Moser and Kalton, 1985). Oakley (1986) sees interview as more than mere conversation between the interviewer and respondent, it is "rather like a marriage: everybody knows what it is, an awful lot of people do it, and yet behind each closed door there is a world of secrets" (p. 231). Since getting responses via mailed questionnaires is expected to be limited, it is crucial that interviews are conducted with providers and users of information.

Personal interviews were conducted to investigate the firm's motive and perceived need for disclosing, or not disclosing, social information. Personal interview can be categorised as structured, explanatory and semi-structured. Each of these categories has its own advantages and disadvantages (see Burgess, 1991; Graham and Skinner, 1991; Mishler, 1986). Qualitative semi-structured interviews are more appropriate for this study not only because they give respondents the opportunity for self expression but also because they can begin to reveal the subjective meanings and reasons which have led to disclosure and non-disclosure of corporate social information. Apart from the production of a wealth of detailed information, qualitative interviews are likely to be less biased than questionnaire studies because respondents can explain in their own words rather than fit responses into predetermined categories.

5.5.1 Sample Selection

Three groups of respondents were selected. Letters were sent to each respondent to request an interview during the period March to May 1996. To determine why corporations are disclosing social information, a number of companies' disclosing social information were selected as the first group. This group is further divided according to industry membership, country of ultimate ownership and size. In each industry, two respondents were selected. One would be a Malaysian company and the other, a foreign-owned company, if possible. In order to understand the effect of company size, one large company and one small company were selected (according to market capitalisation). Most of the original respondents in this group agreed to be interviewed. Those who declined gave the reason "too busy preparing the annual report".

The next group is made up of companies who are not disclosing any social information. The aim is to find out why they are not disclosing. Initially, 14 companies were selected (similar to the first group, it was further divided according to industry, country of ownership and size). However, most of the financial directors contacted turned down the interview for a variety of reasons. Indeed, many of them did not reply. Follow-up contact by telephone was necessary, however, most potential respondents turned down the interview or promised to "call back later". New respondents had to be contacted via telephone and fax to ensure a respondent from each industry. Finally, only seven (one from each industry) were interviewed.

The third group is the financial analysts. Since they are one of the most important users of the financial statements, they were selected to find out if they need or use social information for decision making. Because of the poor response from financial analysts, invitations were extended to unit trust managers and credit rating agencies. Finally, only five respondents from this extended group agreed to be interviewed. For a list of interviewed respondents see Appendix 3.

5.5.2 Interviewing Process

Efforts were made to use interviewing techniques based on cues of interests in what the interviewee was saying to encourage more elaboration on sensitive issues (see, for example, Mishler, 1986; Moser and Kalton, 1985). The interviews were mostly recorded on tape. Some of the interviewees were reluctant to be taped for fear that the tape could be used against them, and some said that it is against company policy to tape conversations. The structure of enquiry was guided by an open ended questionnaire and the respondents were free to explore their views on any issues related to social disclosure. As there are three groups of respondents, three separate open-ended questionnaires were used (see Appendix 4). Apart from the three sets of individually tailored questionnaires, a list of questions that are directly related to each industry was also utilised. The reason behind this is that not all questions are suited to each group. Therefore to be objective a separate questionnaire is logical. This open-ended questioning method is suited for dealing with the complex ethical and moral issues concerning social information.

Managers were initially asked if they had come across the term social reporting and what they perceived it to mean, and secondly should social information be disclosed from company's point of view and his own personal view. Set in the face-to-face interview situation, it was possible not just to find out what the managerial views are, but also to follow it up immediately by asking why? As the interview fieldwork progressed, it became clear that it was very much an exploratory process for the respondents themselves, as well as for the researcher. Even though individual management might have been carrying out social reporting for several years, up to then, they might not have pinned down their communication objectives. The interview provided managers with the opportunity to think through the issues, and to elaborate or explain complex ideas which they might shy away from if answering a straight forward questionnaire.

All the recorded interview tapes were transcribed verbatim for analysis. Although different forms of content analysis could be carried out (Fielding and Lee, 1991; Miles and Huberman, 1984), it was not felt that abstracting words or phrases was the most appropriate method for interpreting subjective meanings. Instead, full understanding of each sentence or paragraph was preferred, so that statements could be interpreted within the context of the whole response to specific topics. Therefore, all the interview transcripts were read through carefully to identify ideas and elaborate responses through classification and summary. As the ideas were freely discussed by the respondents, the frequency of each idea being mentioned may be accepted as an appropriate indicator of its relative significance. The 'main-stream' thinking thereby identified together with answers to the simple closed questions were analysed quantitatively.

While there are many advantages with personal interviews, there are some disadvantages as well. Personal interviews are generally more expensive to carry out than mail questionnaires or telephone interviews. The geographic proximity of respondents, the length and complexity of the questionnaire, and the number of people who are non-respondents because they cannot be contacted all influence the cost of the personal interview. Access to individuals and organisations is often restricted. Appointments are crucial to guarantee access. Negotiating access often takes both skill and time. However, being an outsider, last minute cancellation is not unusual. Even though another appointment could be made at a later date the interview schedule and interviewers timing could be upset.

Respondents are not anonymous and therefore may be reluctant to provide sensitive or confidential information to another person. Some managers were reluctant to answer sensitive and confidential questions honestly in a personal interview where their identity is known. The researcher often spent considerable time and effort to phrase sensitive questions so that social desirability bias did not occur.

Interviews yield voluminous data. Recording of interviews should be done as verbatim as possible. Though it could be easily solved by using a tape recorder, noise and the quality of audio tape usually hinders transcribing of data. Additionally, transcription of an interview is exceedingly time consuming, even for an experienced stenographer. This researcher also had to deal with excess information from respondents likely to talk more 'for the record' with a tape recorder than without (see Whyte, 1982). Furthermore, others refused to be tape recorded for fear that it would involve them discussing confidential or controversial topics. Note-taking had to be employed in such cases which clearly was not an ideal situation.

CHAPTER 6

CONTENT ANALYSIS OF SOCIAL DISCLOSURE

6.1 INTRODUCTION

This chapter is divided into two sections. Section one investigates whether a company had reported any aspect of its social performance in the annual report and if so, how much is disclosed. The major themes of disclosure and sub categories as well as the different company characteristics that affect disclosure are also identified in this section. The second section investigates the association or correlation between disclosure and key corporate characteristics, size, profitability, industry membership and country of ownership. Hypotheses tested are:

1. companies which provide social disclosure are larger in size than those which do not;
2. companies which provide social disclosure have higher profit than those who do not disclose social information;
3. corporate social disclosure varies among primary industries;
4. corporate social disclosure varies according to country of ownership.

6.2 DESCRIPTIVE DATA

One hundred companies were included in the sample. The survey covered the leading Malaysian quoted companies, based on market capitalisation. Annual reports for the year ending 1993 were collected and analysed. The descriptive data are presented in the charts below. Chart 6.1 describes the sample's distribution by country of ultimate ownership. From the sample, 81 companies had Malaysian major ownership, whilst 11 had major European ownership, three major US ownership, and five other major ownership.

Chart 6.1: Country of Major Ownership

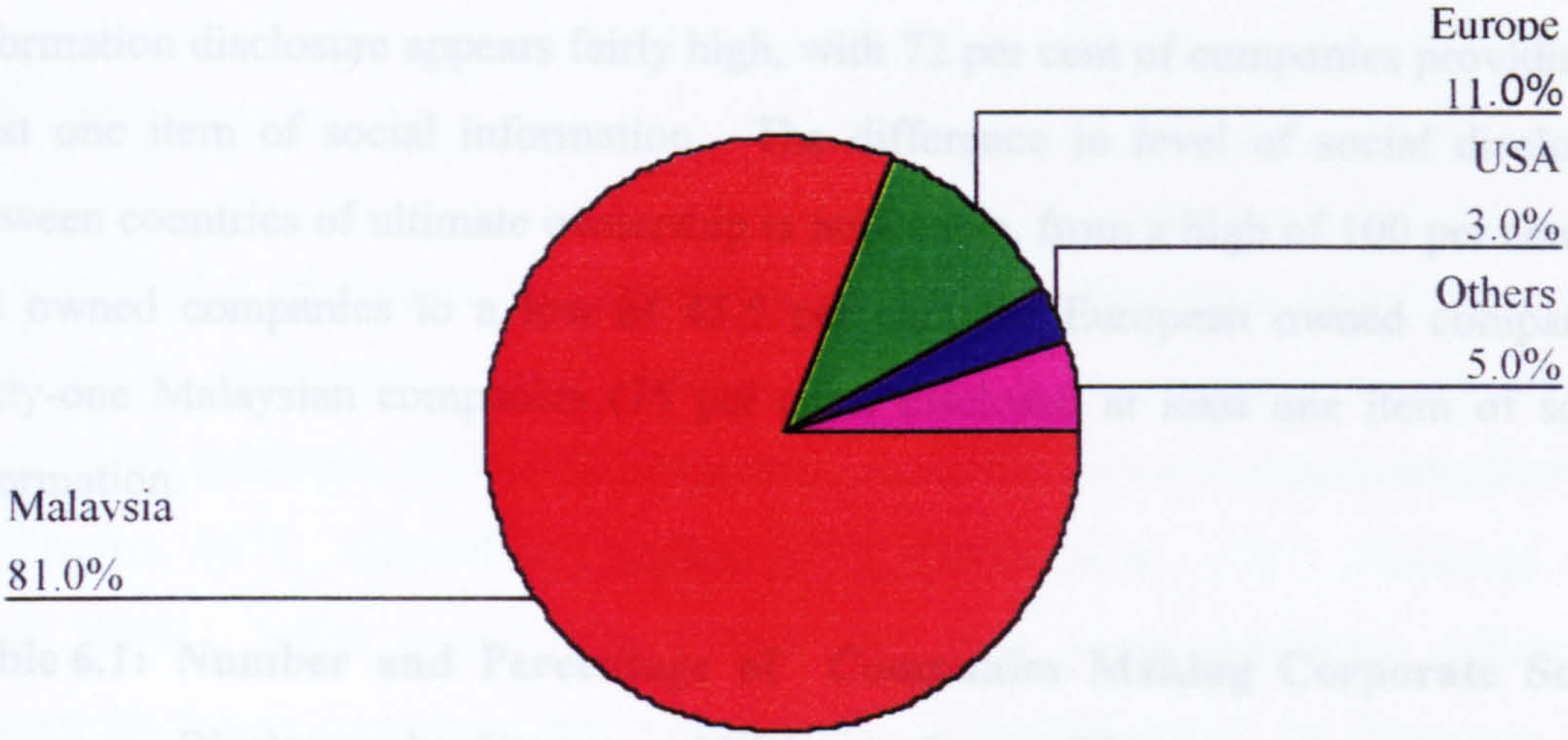
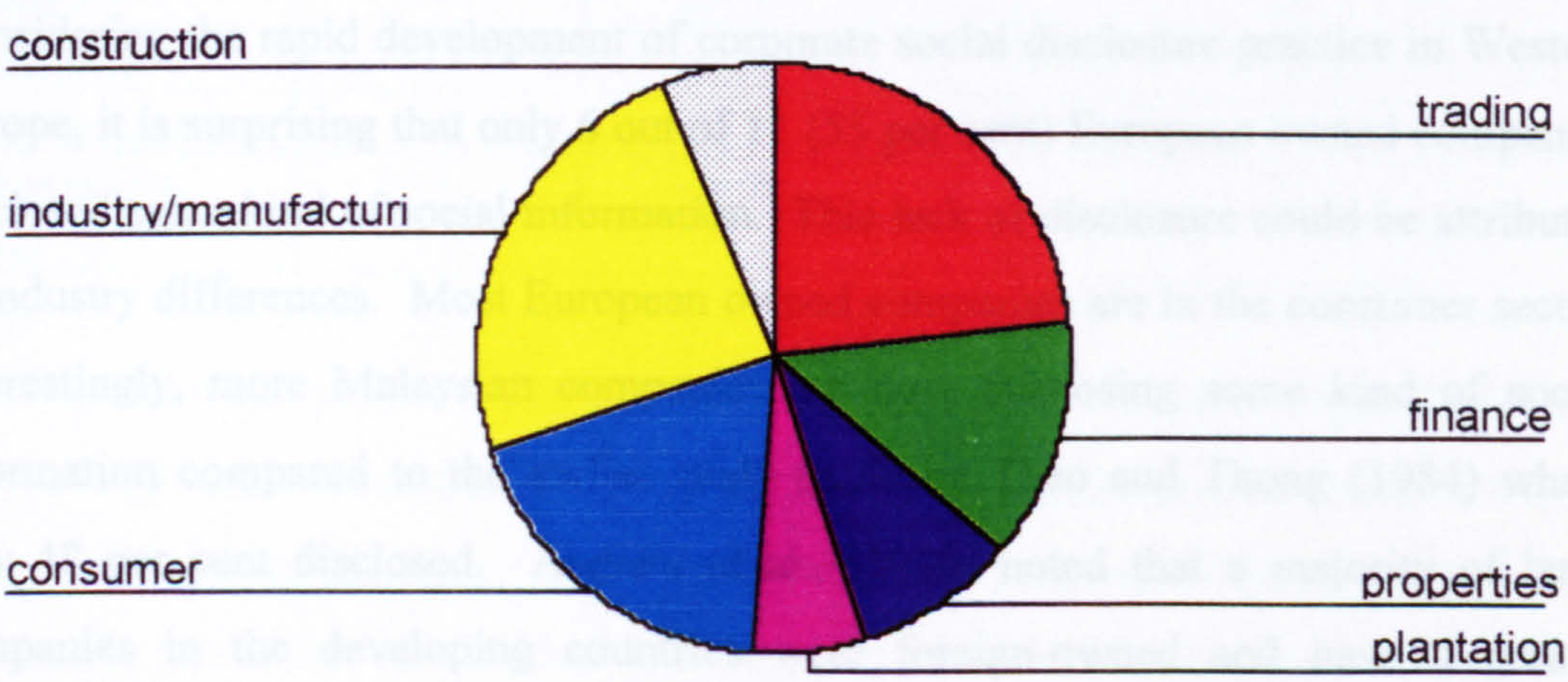


Chart 6.2 shows the distribution of sample by industry. Seven industries were identified. From the sample, 23 companies were classified under trading, 13 under finance, nine under properties, six under plantation, 19 under consumers, 24 under manufacturing, and six under construction.

Chart 6.2: Types of Industries



6.3 GENERAL SOCIAL DISCLOSURE

Table 6.1 below provides an overview of the disclosures made. The incidence of some information disclosure appears fairly high, with 72 per cent of companies providing at least one item of social information. The difference in level of social disclosure between countries of ultimate ownership is noticeable, from a high of 100 per cent for US owned companies to a low of 45.5 per cent for European owned companies. Sixty-one Malaysian companies (75 per cent) disclosed at least one item of social information.

Table 6.1: Number and Percentage of Companies Making Corporate Social Disclosure by Country of Ultimate Ownership

	Companies	Disclosure	
Ownership	**No**	**No**	**%**
Malaysia	81	60	74.0
Europe	11	6	55.0
USA	3	3	100
Others	5	3	60
Total	**100**	**72**	**72%**

Considering the rapid development of corporate social disclosure practice in Western Europe, it is surprising that only 6 out of 11 (55 per cent) European owned companies disclosed some kind of social information. This lack of disclosure could be attributed to industry differences. Most European owned companies are in the consumer sector. Interestingly, more Malaysian companies are now disclosing some kind of social information compared to the earlier study made by Theo and Thong (1984) where only 48 per cent disclosed. Andrew et al., (1989) noted that a majority of large companies in the developing countries were foreign-owned and have a greater tendency to disclose social information. Today, most of the larger companies are Malaysian owned. Forty-four out of the fifty top companies in Malaysia in terms of market capitalisation have major Malaysian ownership (see Asia Pacific Handbook, 1994). The increase in size of Malaysian owned companies provides a reason for increased social disclosure. Apart from size, greater awareness, greater social commitment and the introduction of 'a caring society' could also explain the increased incidence of disclosure (see Chapter Two).

6.3.1 Industry

The nature of a company's industry has also been identified as a factor that could affect social disclosure. Prior studies, however, have provided mixed results regarding the influence of industry category on the extent of social disclosure (Dierkes and Preston, 1977; Ahmed and Zeghal, 1987; Cowen et al., 1987; ,Hackston and Milne, 1996). Initial investigation reveals that there is no significant difference between disclosing companies and industry type. Table 6.2 shows the frequency and percentage of corporate social disclosure by industry.

Table 6.2: Number and Percentage of Companies Making Corporate Social Disclosure by Industry

	Disclosure		Non-Disclosure	
Industry	**No**	**%**	**No**	**%**
Trading	20	87	3	13
Finance	10	76.9	3	23.1
Properties	6	66.7	3	33.3
Plantation	5	83.3	1	16.7
Consumer	12	63.2	7	36.8
Manufacturing	15	62.5	9	37.5
Construction	4	66.7	2	33.3
Total	**72**		**28**	

For companies categorised under trading and plantation, the percentage disclosing amounts to 87 per cent and 83 per cent respectively. Surprisingly, the manufacturing sector is disclosing the least. Considering the manufacturing sector normally has a high profile (see Milne and Hackston, 1996), they should be leading in the disclosure of social information, especially on the environment, to legitimise their business. Only 63 per cent of companies in the consumer sector disclose social information, and one would also expect the consumer sector to disclose more particularly on community activities.

6.3.2 Amount of Disclosure

Results presented above are by incidence of disclosure, i.e. the number of disclosing companies as a percentage of total sample, and not by the amount of disclosure. It is assumed that the incidence and amount of disclosure are related to the importance placed on a certain issue, that is the greater the incidence and amount of disclosure the greater the perceived importance. Hackston and Milne (1996) stated the problem with relying on incidence rates is that they may be misleading in the sense that they treat companies reporting with one sentence as equal to those including many sentences. Therefore, other studies have focused on number of sentences (see Ingram and Frazier, 1980; Hackston and Milne, 1996).

Table 6.3: Amount of Disclosure By Country/Region

	Total Sentences	Average	Minimum	Maximum	Incidence of Disclosing
Malaysia	790	13.7	1	78	60
Europe	73	12.17	1	22	6
USA	25	8.33	1	23	3
Others	18	6.0	4	7	3
Total	**906**	**12.58**	**1**	**78**	**72**

From Table 6.3 we can see that the total amount of disclosure by the 72 disclosing companies is 906 sentences representing an average of 12.58 sentences per company[1]. Maximum disclosure by a single company is by a Malaysian company (Tenaga Nasional - a major energy supply company) with 78 sentences. Malaysian companies also had the highest average number of sentences of disclosure (13.7 sentences per company). Analysis of total amount of disclosure by industry shows that trading companies disclose the most with an average of 16.5 sentences per company (see Table 6.4).

[1] The analysis is based on the sample of disclosing companies only (72 companies), not the total sample of 100 companies.

Table 6.4: Amount of Disclosure By Industry

	Total Sentences	Average	Minimum	Maximum	Incidence of Disclosing
Trading	330	16.5	1	78	20
Finance	110	11	1	37	10
Properties	77	12.8	3	31	6
Plantation	76	15.2	1	55	5
Consumer	108	9	1	23	12
Manufacturing	172	11.5	1	34	15
Construction	33	8.3	6	12	4
Total	**906**	**12.58**	**1**	**78**	**72**

6.4 THEMES OF DISCLOSURE

Themes of disclosure were divided into four categories; human resource, community, product and environment (see Gray et al., 1995b). Table 6.5 shows the frequency and percentage of different categories of corporate social disclosure by country of ultimate ownership and by industry (based on the numbers of disclosing companies - 72 companies). All disclosing companies from Europe, US, and other regions disclosed data on human resources, whilst 92 per cent of Malaysian companies disclosed such information. All European companies that disclose social information reported on product and services. Since most European companies are categorised under the consumer sector, advertisement may be the reason for disclosure. Noticeably, 55 per cent of Malaysian companies disclosed community information. The government policy of 'a caring society,' could be the catalyst for such disclosure. Disclosure on the environment is minimal. Could it be that the environmental pressure groups are not vocal enough to voice their opinion? Companies on the other hand may notice these pressures but choose to turn a blind eye in order to maximise profit.

Table 6.5: Frequency and Percentage of Corporate Social Disclosures by Country/Region of Ownership

	Human Resource		Community		Product		Environment		Total
	No	%	No	%	No	%	No	%	
Malaysia	55	91.8	33	55.0	30	50.0	19	31.7	60
Europe	6	100	3	50.0	6	100	2	33.3	6
USA	3	100			1	33.3	1	33.3	3
Others	3	100	1	33.3	1	33.3	-	-	3
Total	**67**	**93.1**	**37**	**51.4**	**38**	**52.8**	**22**	**30.6**	**72**

Table 6.6: Frequency and Percentage of Corporate Social Disclosures by Industry

	Human Resource		Community		Product		Environ-ment		Total
	No	%	No	%	No	%	No	%	
Trading	17	85.0	15	75.0	10	50.0	5	25.0	20
Finance	10	100	3	30.0	3	30.0	-	-	10
Properties	6	100	4	66.7	4	66.7	4	66.7	6
Plantation	5	100	3	60.0	3	60.0	4	80.0	5
Consumer	11	91.7	5	41.7	7	58.3	3	25.0	12
Manufacturing	14	93.3	9	60.0	9	60.0	5	33.3	15
Construction	4	100	1	25.0	2	50.0	1	25.0	4
Total	**67**	**93.1**	**37**	**51.4**	**38**	**52.8**	**22**	**30.6**	**72**

6.4.1 Human Resource

This is by far the most popular theme disclosed by most companies (see Tables 6.5 and 6.6 above). Since most companies regard the human resource as their most valuable asset, it is not surprising that the incidence of disclosure is high. Good management of human resources is essential to the company if it is to maximise profit. Employee related information is also of major interest to employees themselves, who may be given the annual report either because this is viewed as good practice by the company or because they are also shareholders (Adams et al., 1995).

Table 6.7 below describes the amount of human resource disclosre by country of ownership The sample for analysis in this section is based upon companies disclosing human resource information (67 companies). Malaysian companies again emerged with the most amount of disclosure with an average of 7.53 sentences. The maximum number of sentences disclosed by a single company was thirty eight.

Table 6.7: Total Amount of Human Resource Disclosure by Country/Region of Ownership

	Total Sentences	Average	Minimum	Maximum	Incidence
Malaysia	414	7.53	1	38	55
Europe	45	7.5	1	18	6
USA	20	6.67	1	18	3
Others	13	4.33	4	5	3
Total	**486**	**7.3**	**1**	**38**	**67**

Table 6.8 on the other hand describes the disclosure of human resource information by different types of industries. Trading companies appear to disclose the most amount of human resource information with a total of 174 sentences and an average of 10.2 sentences per company. Manufacturing companies comes second with a total of 106 sentences, but in terms of average sentences per company, plantation companies are second with an average of 8.8 sentences.

Table 6.8: Total Amount of Human Resource Disclosure By Industry

	Total Sentences	Average	Minimum	Maximum	Incidence
Trading	174	10.2	1	38	17
Finance	61	6.1	1	15	10
Properties	33	5.5	1	11	6
Plantation	44	8.8	1	33	5
Consumer	44	4	1	11	11
Manufacturing	106	7.6	1	22	14
Construction	24	6	3	12	4
Total	**486**	**7.3**	**1**	**38**	**67**

Table 6.9 summarises the major sub-categories of disclosure made about employee related matters by country of ownership. The majority of companies disclosing social information conveyed their thanks and appreciation to the employees. Foreign owned companies favour disclosing on the number of employees while only 31.7 per cent of local companies disclosed such information. Another favourite sub-category of disclosure is employee training and development with disclosure rates of 65 per cent or more except for US owned companies where only 33.3 per cent disclosed. Disclosure on other sub-categories amount to less than 50 per cent.

Table 6.9: Sub-Categories of Human Resource Disclosure by Country/Region of Ownership

Sub Category	**Malaysia**	**Europe**	**USA**	**Others**
Appreciation and Awards	100	100	100	100
Training & Development	65	66.7	33.3	66.7
No of Employees	31.7	66.7	66.7	66.7
Employees Welfare	45	33.3	33.3	0
Employee Safety	30	33.3	33.3	0
Employee Share Option	28.3	33.3	0	33.3

Table 6.10 shows the frequency of disclosure for sub-categories of human resource information by industry classification. Four industries, finance, properties, plantation and construction made 100 per cent disclosure on human resource overall. The major sub-categories reported on were appreciation and awards, and training and

development. One interesting feature lies in the construction industry's disclosures on employees training and safety. One reason why the construction industry may be keen on disclosing information on safety of employees could be to legitimise their business or trying to avert public attention. In 1992, there was an intense media coverage over construction workers safety and safety of the work place as a result of several scaffolding and building under construction collapses.

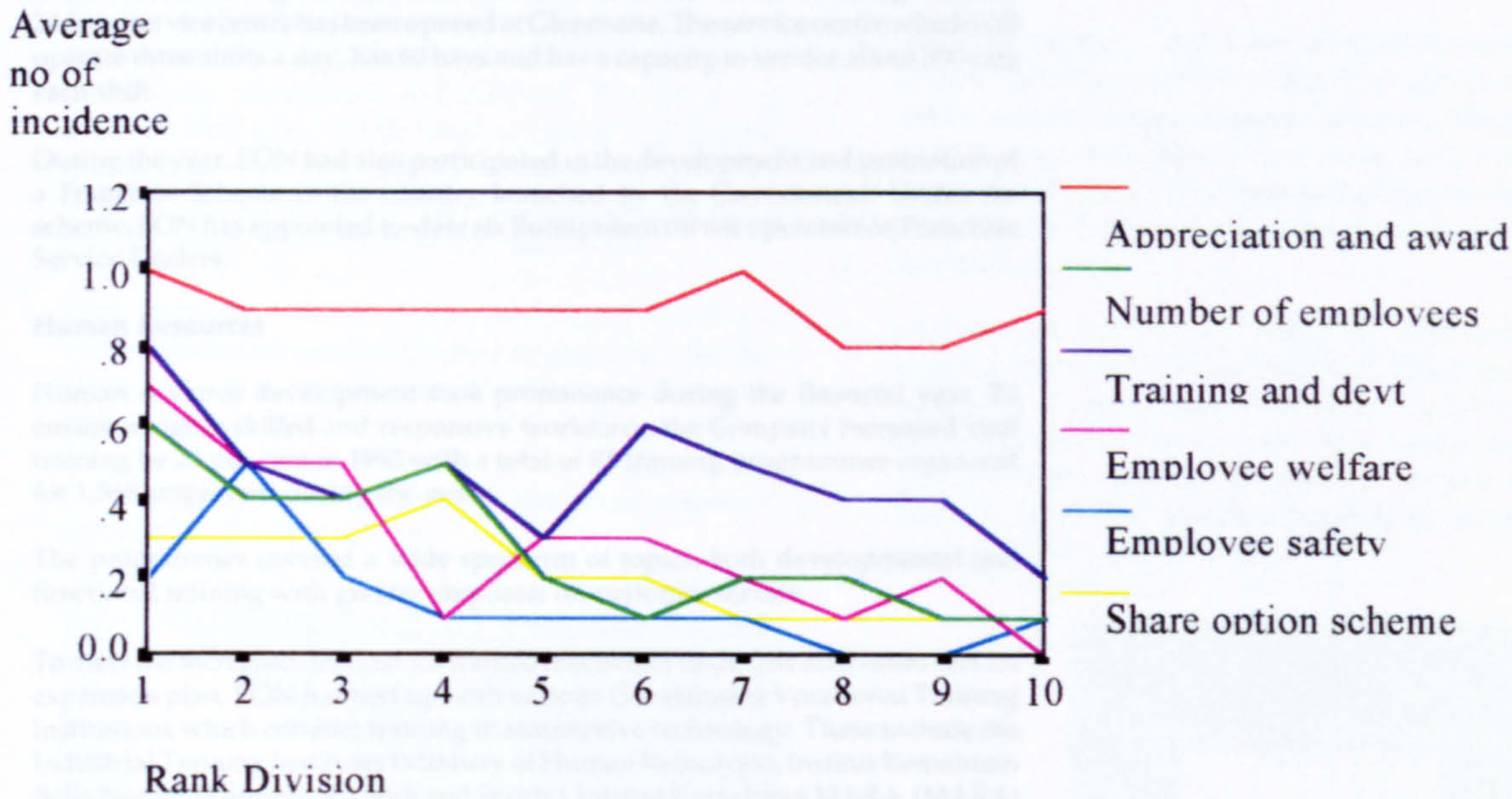
Table 6.10: Sub-Categories of Human Resource Disclosure by Industry

Industry	Total dis-closure	Appre-ciation and awards	No of empl-oyees	Empl-oyee training and develop-ment	Empl-oyee welfare	Emplo yee safety	Employ ee share options
Trading	85	100	50	70	55	17.8	30
Finance	100	100	20	70	20	-	40
Properties	100	97	16.7	50	50	33.3	33.3
Plantation	100	95	20	60	80	20	20
Consumer	91.7	93.2	50	33.3	33.3	18.2	16.7
Manufacturing	93.3	97	46.7	73.3	33.3	28.6	26.7
Construction	100	100	0	100	0	25	25

The plantation and construction industries employ and maintain a lot of employees. The plantation industry's disclosure heavy disclosure on employees' welfare is justified, especially on workers accommodation and safety, as it conveys the impression that they are a responsible company. However, the construction industry did not have any disclosure at all on employees' welfare. There is a high probability that the construction industry is not actively involved in employees welfare. In Malaysia, construction workers' accommodation and living conditions are below par (see Jomo, 1994). This could be because accommodation is temporary which is in contrast to that of plantations.

Chart 6.3 below shows the relationship between company size and human resource sub category disclosure. The incidence of disclosure in each sub category is plotted against company size which is divided into ten equal divisions (called the Rankdivision). For example, eight companies in division one, five in division two and four in division three, reported on employee training and safety. The bigger the size of a company, the more is the incidence of employee training and development information reported. Therefore, size has a relationship with employee training and development. Size also appears to have a relation with disclosure for number of employees, employees welfare and employees share option scheme . There is no relation between size and awards to the employees.

Chart 6.3: Sub-Categories of Human Resource Disclosure by Company Size



6.4.1a Disclosure Practice

Disclosure is largely in narrative form. The main exception being in the two areas of number of employees and employee share option scheme information. Number of employees is normally mentioned in the operational review with some companies providing graphics. Employee share option schemes are normally mentioned briefly in the Chairman's Statement followed by detailed information in the Directors Report. Some companies devoted an entire section of the annual report to human resource information. Edaran Otomobil Nasional and Genting (both Malaysian companies) provided an extensive review of their human resource development. They provided information not only the number of employees, but also on training and development, welfare and awards to the employees (see Exhibit 6.1 and Exhibit 6.2).

Customer Service and After-Sales Service

The Company is committed to establishing new standards in customer service as envisioned in its corporate mission "to be Malaysia's leading automobile distributor through continuous innovation and excellent customer service".

In 1993 the Company began to acquire land and buildings as part of its strategic plan to upgrade customer service and after-sales service. This RM 232 million five-year expansion programme is designed to seek new permanent locations for existing rented showrooms and service centres throughout the country.

In an effort to meet growing demand for after-sales service in the Klang Valley, a 24 hour service centre has been opened at Glenmarie. The service centre which will operate three shifts a day, has 60 bays and has a capacity to service about 300 cars each shift.

During the year, EON had also participated in the development and promotion of a Franchise Scheme in the country launched by the Government. Under the scheme, EON has appointed to-date six Bumiputera owner operators as Franchise Service Dealers.

Human Resources

Human resource development took prominence during the financial year. To ensure a highly skilled and responsive workforce, the Company increased staff training by 25 per cent in 1993 with a total of 85 training programmes organised for 1,568 employees during the year.

The programmes covered a wide spectrum of topics, both developmental and functional training with greater emphasis on customer service.

To meet the increased demand for trained mechanics under the after-sales service expansion plan, EON has tied up with various Government Vocational Training Institutions which conduct training in automotive technology. These include the Industrial Training Institutes (Ministry of Human Resources), Institut Kemahiran Belia Negara (Ministry of Youth and Sports), Institut Kemahiran MARA (MARA) and Vocational Schools (Ministry of Education). The prime objective of this arrangement is to generate through these institutions a pool of mechanics who would upon completion of their training programmes, be well versed with Proton vehicles. Under the programme, EON has donated Proton components and Proton used cars to these institutions for their training purposes.

During the year, the Management concluded the negotiation of the Second Collective Agreement with its three in-house unions namely, the Kesatuan Pekerja-Pekerja EON Semenanjung Malaysia, Sabah and Sarawak respectively. All these agreements which took effect from 1 July, 1993 are valid for a period of three and a half years expiring on 31 December, 1996. Under the new agreements, existing benefits were enhanced such as salary adjustments, hospitalisation expenses, medical benefits for dependents, and reimbursements for maternity expenses in respect of female employees. Some new benefits were also introduced such as car and housing loan interest subsidies.

In its third year of implementation, the QCC activities at EON were also given greater emphasis with the number of active quality control circles increasing by 120 per cent from 12 to 26. The TQM Movement introduced in 1992 was sustained throughout 1993 with ten on-going projects in the implementation and evaluation phases.

EXHIBIT 6.1
EDARAN OTOMOBIL NASIONAL
1993 ANNUAL REPORT
PAGE: 25

HUMAN RESOURCES

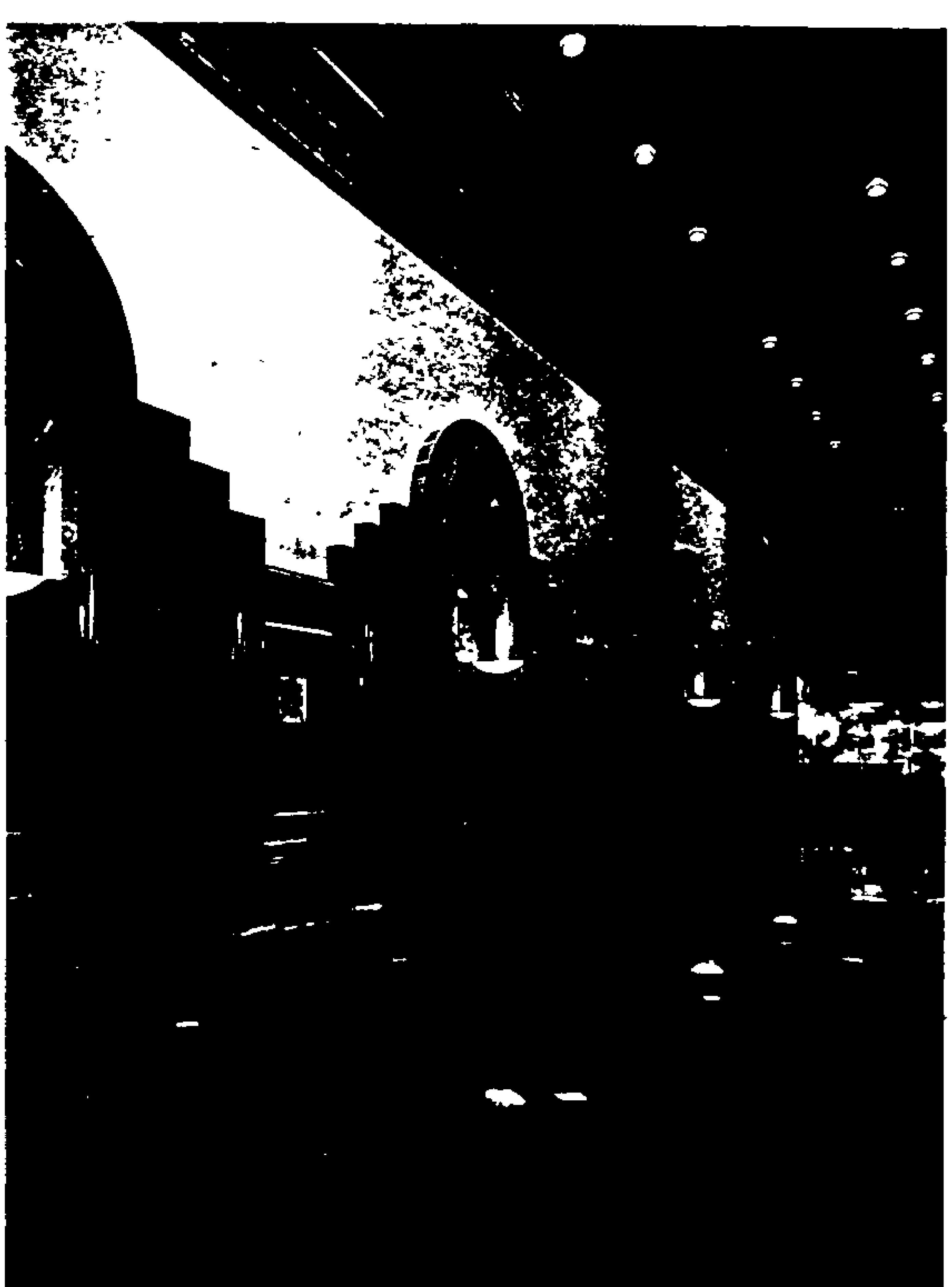
As at 31st December 1993, the Genting Group's total workforce exceeded 11,400 employees – an increase of approximately 4% over 1992.

With rapid changes in customer expectations and in the business environment, the Group firmly believes in developing its human resources to maintain its long-term growth. Training and human resource development programmes have thus been geared towards equipping employees with a broad range of skills and expertise. Also of great importance is the general welfare of each individual employee and fostering cohesiveness and teamwork amongst the work groups, departments and divisions. This led to the implementation of the "Family Team" concept in 1993 whereby team agendas were established by the members of each team which designs and advocates its own strategies in mapping out areas of improvement within their work environment.

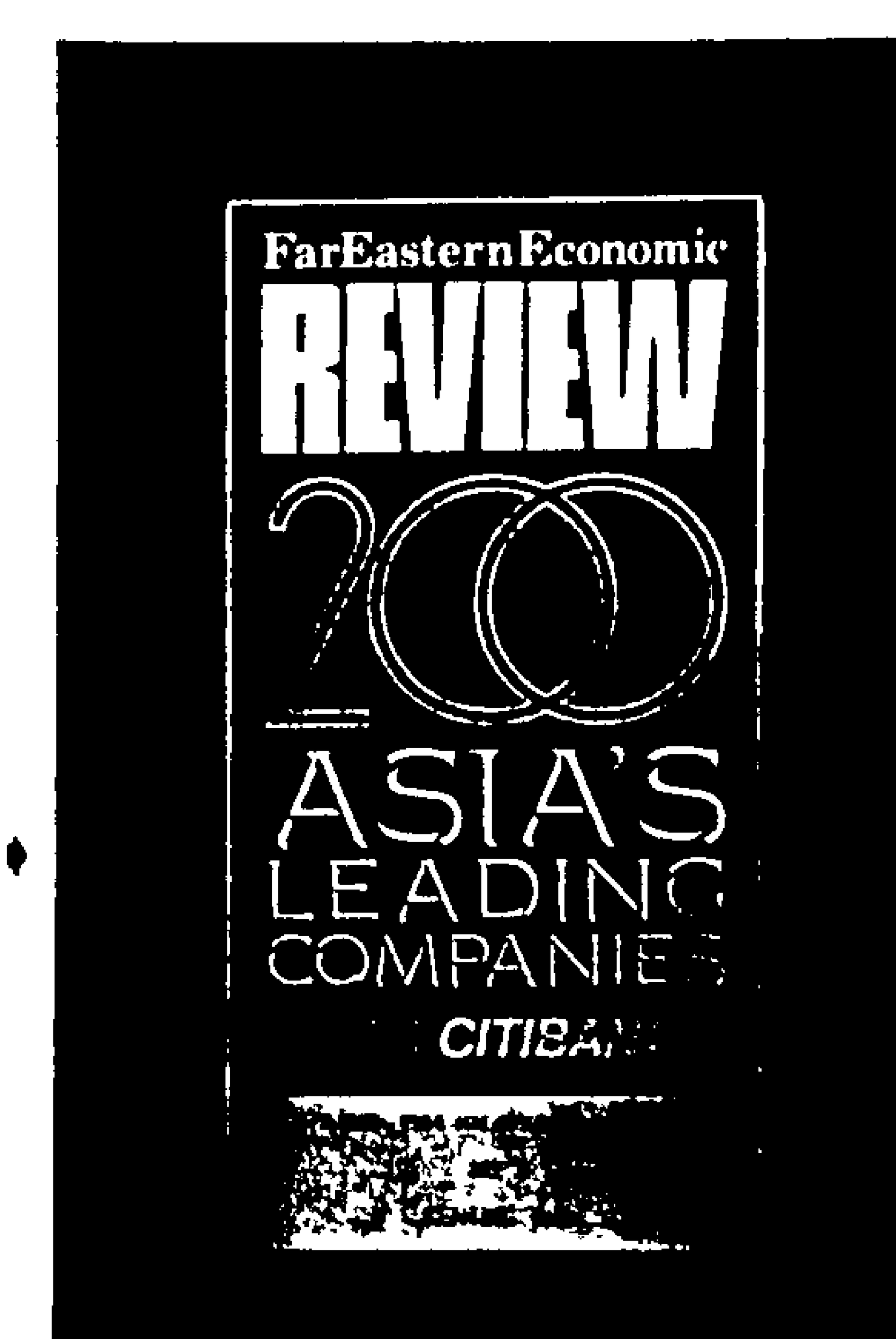
While emphasis is placed on work performance, providing a conducive workplace is of priority and as such, recreational facilities for employees to exercise and relax after a hard-day's work have been specially designed in the extension to Wisma Genting, the Group's corporate headquarters. The facilities available include a well equipped gymnasium, squash court, "karaoke entertainment" and multi function meeting rooms.

The Group is proud that the dedication and commitment of its workforce with the leadership of its management has been recognised and it is honoured to receive awards and ratings in various financial and corporate surveys in 1993, namely:-

- Asia Inc.'s survey called "Asia's Rising Stars/Growth 88" on Asia's fastest growing companies, whereby Resorts World Bhd/Genting Bhd were among the "Growth 88" companies selected,
- Asiamoney's survey of "Asia's Best Managed Companies" whereby Genting Berhad/Resorts World Bhd together were rated overall as the Best Managed Company in Malaysia while receiving second placing on an overall basis in Asia. Genting Berhad/Resorts World Bhd together were also rated first in terms of Financial Prudence and second in terms of Investor Relations,
- Far Eastern Economic Review's "Review 200" voted Genting Berhad as one of Asia's Leading Companies ranking second in Malaysia for overall leadership while ranking in the top twenty in all the other five categories, that is Management's Long-Term Vision, Financial Soundness, A Company that Others try to Emulate, Innovative Response to Customer Needs and Quality Service/Products.



One of the many financial and corporate survey ratings and awards received by the Group



The elegantly finished interior of the extension to Wisma Genting, which further enhanced the building's reputation as one of the prime office buildings in the business and commercial centre of Kuala Lumpur

EXHIBIT 6.2
GENTING BERHAD
1993 ANNUAL REPORT
PAGE: 21

6.4.1b Employee Appreciation and Awards

Annual reports surveyed seemed to be designed mainly for shareholders and potential investors. Even though most companies disclosure contained a number of statements relating to the employees, it does not seem to be directed to the employees. The only exception is the statement expressing thanks to employees. However, most mentions here were largely in the form of a passing reference contained in an acknowledgement or appreciation section in the Chairman's Statement with no more than a small paragraph or a sentence or even just a phrase. This statement emphasised mainly aspects of employee support, dedication and commitment. For example:

> *"Finally, I would like to thank the management and staff who had given their dedicated services to the Group, and also all our business associates for their unwavering support for the Group over the last fifteen months (Samanda Holdings)*
> *Also I would like to take this opportunity to express my appreciation to the management and all employees of the Cycle and Carriage Bintang Berhad's Group for their commitment and dedication (Cycle and Carriage Bintang).*
> *Dedication, commitment, teamwork and unity are ingredients that contribute to our current success. I am extremely grateful to my fellow Directors for their support, the Management and staff for their various contributions and commitments. We definitely look forward to another successful year (Cement Industries of Malaysia)."*

A number of companies also distinguished and presented awards to their long service employees. Thirty three per cent of European owned companies and thirteen per cent of Malaysian owned companies disclosed information on long serving employees and other award presentation. The disclosure is normally found in the operational review, corporate calendar or highlights. Leader Universal, for example reported on long service awards and also the number of employees receiving this reward.

> *"Long Service Awards are given out annually in recognition of loyalty and good work put in by staff. In 1993, 68 employees received this award." (Leader Universal)*

Outstanding employees are also recognised by some companies through the award of Model Employee of the Month and Employee of the Year Awards which provided incentives to the employees concerned but also to promote competition, greater teamwork and improved quality. Genting for example noted:

> *"The Company recognises outstanding employees through awards such as 'Model Employee of the Month', 'Model Employee of the Year' and 'Long Service Award'. The Quality Improvement Team activities have helped to develop greater teamwork through the synergy of ideas and innovation in our quest to continue improving our services to our customers." (Genting)*

6.4.1c Employee Training and Development

Next to appreciation to the employees, training and development is the most popular sub-category disclosed by companies. As shown in Table 6.2, disclosure about training and development matters were made by most companies. Normally companies would disclose information about the need for training, types of training conducted and sometimes the amount spent. The length of disclosure varies from a paragraph to an entire section. Yeoh Tiong Lay (a major construction company) for example assigned a paragraph to training and development issues:

> *"Syarikat Pembenaan Yeoh Tiong Lay S/B was honoured with the accredited award from the British Chartered Institute of Building Construction Industry Training Programme. The accreditation certificate is the first of its kind to be granted outside Britain. A significant development derived as part of YTL Group's human resource policy to enhance the capabilities of manpower that encompasses the scope of this industry. The programme with an investment value of over RM3 million is set to facilitate training for local and foreign personnel in the construction field. We are now qualified in taking the technology transfer a step further by exporting our expertise overseas." (YTL) Operational Review..*

For their part Cement Industries of Malaysia devoted an entire section to training and development. It includes justifying the reason for training and development, types of training conducted and the amount spent,

> *"Investment in HR development can only be the obvious step to stay ahead. With the plant upgrading coming on stream in 1994 and the production capacity increased by 40 per cent, the workforce will remain unchanged. Present employees are trained to perform and handle added functions and responsibilities. To maintain the present workforce and remain competitive, CIMA places more emphasis on creating a conducive and harmonious work environment. Compensation packages drawn up in accordance to the New Collective Agreement were amicably negotiated in 1993 with other cement companies and other heavy industries especially those located in the North.*
> *To further upgrade the staff, motivate them and teach new skills, CIMA has introduced structured programmes. CIMA also participated in the Renong Management Trainee Scheme and contributed RM4 million to the Renong Scholarship Fund. The pursuit of higher achievement demands the participation, skill, loyalty and commitment of CIMA's people. Training will ensure the highest standards of quality and efficiency" (CIMA).*

Information on employee training and development issues was mainly of a descriptive nature. However, some financial expenditure and other quantified information was reported by a small number of companies. For example, Telekom (Malaysia) reported a total of 651 employees pursuing studies, their education ranging from Diploma to the Doctorate level under their staff scholarships program. Malayan Bank (Malaysia) reported a total of 5,889 staff attending the in house training courses conducted both at Maybank Training Centre and branches while another 1,207 staff attended external courses conducted locally as well as abroad. Whilst most companies would disclose information narratively and to some extent qualitatively, it is interesting to note that Tenaga Nasional (Malaysia) also disclosed the financial amount for example:

*"Employees received in-house training at a total expenditure of **RM1,179,255.40** while 1,442 employees received external training at a total expenditure of **RM901,168.88**. The Company also invested **RM2,466,281.00** in overseas training for 354 employees. Post graduate studies were extended to 15 employees at a cost of **RM120,000.00**" (Tenaga Nasional (Malaysia)).*

6.4.1d Employee Welfare

Information on employee welfare was not common amongst foreign owned companies. Only one European owned company (16.7 per cent) and one (33.3 per cent) US owned company disclosed this information. Forty five per cent of Malaysian companies disclosed information on employee welfare which includes accommodation, a conducive working environment, recreation etc. Most of the information disclosed is in qualitative form, with a few companies disclosing quantitatively. For example:

"The Group is also looking at improving the employees welfare and working conditions. Saship has recently announced a scholarship program for its employees to further their studies especially in areas related to the shipbuilding industry" (Westmount).

"Sime UEP was instrumental in setting up the country's first centralised workers quarters in UEP Subang Jaya. The centralised kongsi was established to provide better sanitary and living conditions for foreign workers" (SIME).

A small number of companies do provide some qualitative information particularly in the plantation and construction industry where they noted the quarters or accommodation provided to their staff. A good example is from Tradewinds Berhad:

"The Group endeavours to provide better living condition and welfare for its estate workers and, towards this end, a detailed programme for improving the accommodation at various estates of the group has been implemented. Construction of 42 units of new workers quarters in Ladang Permai were

completed during the year. Another 24 units of workers quarters, 2 units staff bungalows and 1 unit Assistant Manager's bungalow were also constructed for Permai Palm Oil Mill during the year. A replacement programme was also in progress in Ladang New Paloh where 12 units of new workers quarters are being constructed." (Tradewinds).

6.4.1e Number of Employees

Not many companies disclose information on the number of employees. Foreign companies appear to favour disclosing this information as compared to Malaysian companies. Only thirty one per cent of Malaysian companies disclosed this information (see Table 6.2). Information on number of employees is normally found in the operational review under human resource and development. Only a sentence or two is dedicated towards this information. Bank Islam for example, disclosed,

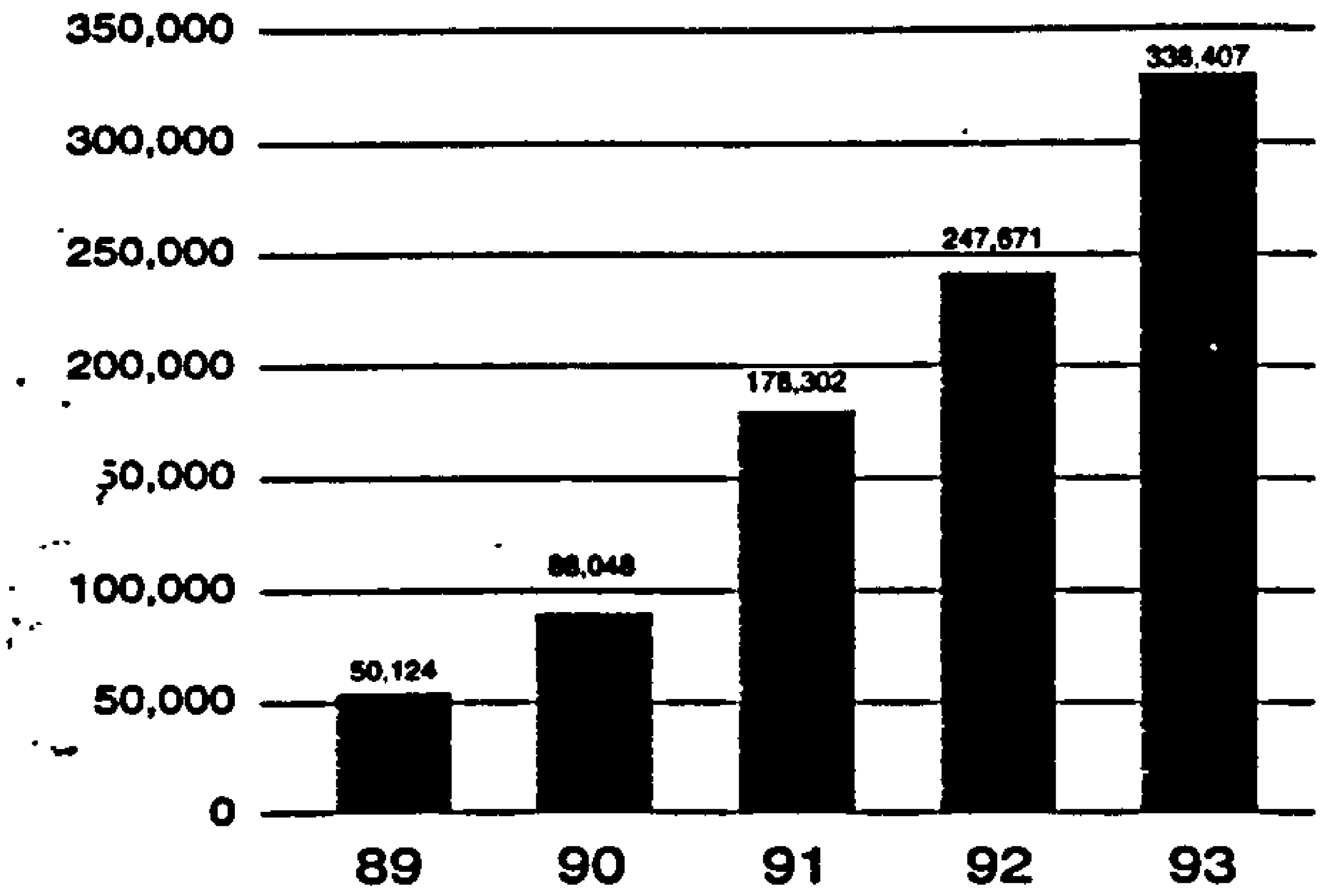
"the Bank has a staff strength of 895 comprising 370 officers of all levels and 525 in clerical and non clerical grades at the end of financial year. At the end of previous year the staff strength was 812".

Some companies do, however, provide graphical presentations (see Exhibit 6.3).

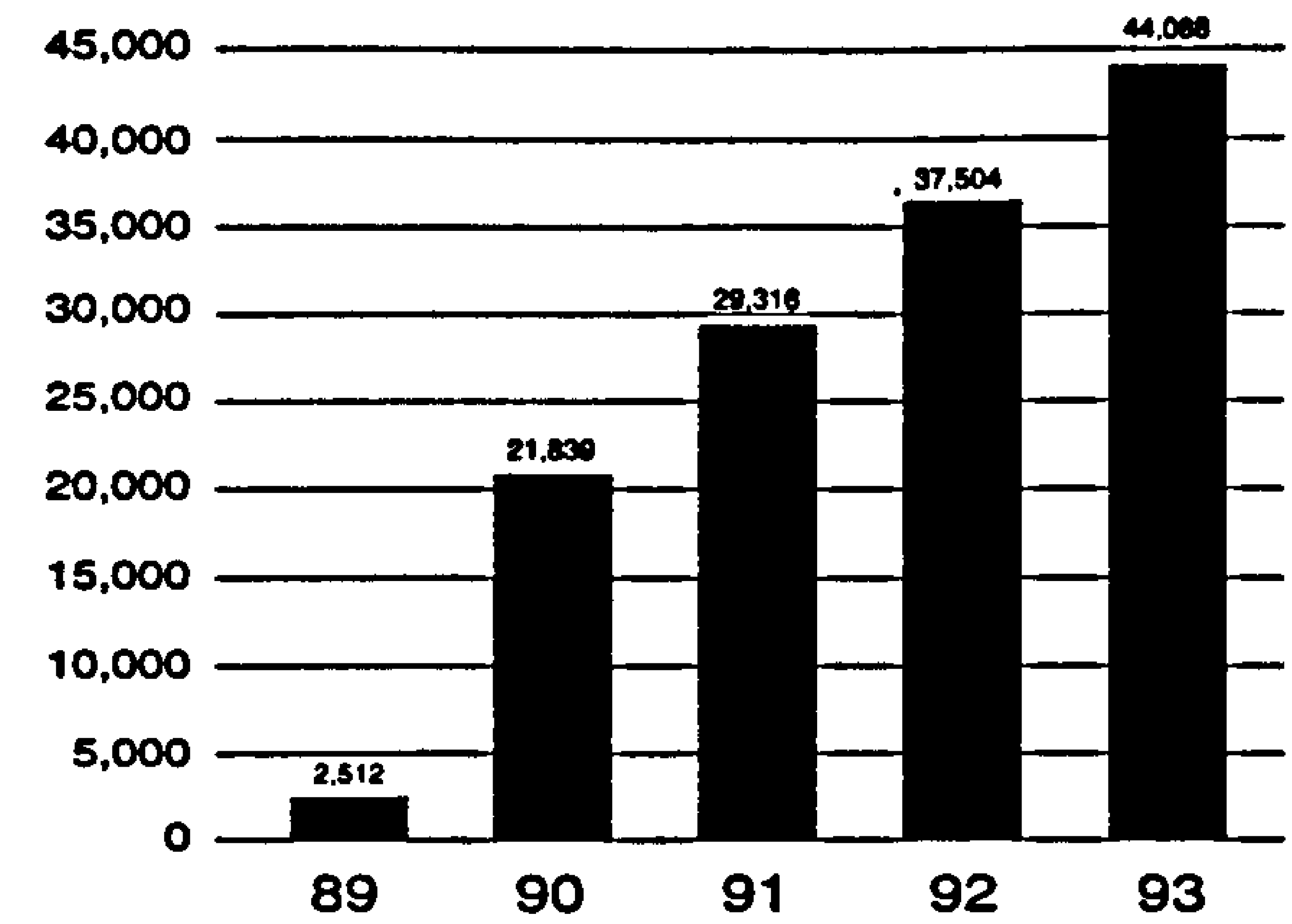
6.4.1f Employee Safety

Disclosure about employee safety is very rare. This could be due to the industrial composition of the sample. This information is non-existent in the services and trading companies. While the rate of disclosure is highest for European and US owned companies (33.3 per cent), only one company each disclosed on employee safety. Only twenty eight percent of Malaysian companies disclose information on employee safety. Most companies disclosing this information give typically brief, uninformative data and only disclose good news. Tenaga Nasional for example, even though providing an entire section about its 'occupational safety and health', gave information that was somewhat typically uninformative (see Exhibit 6.4).

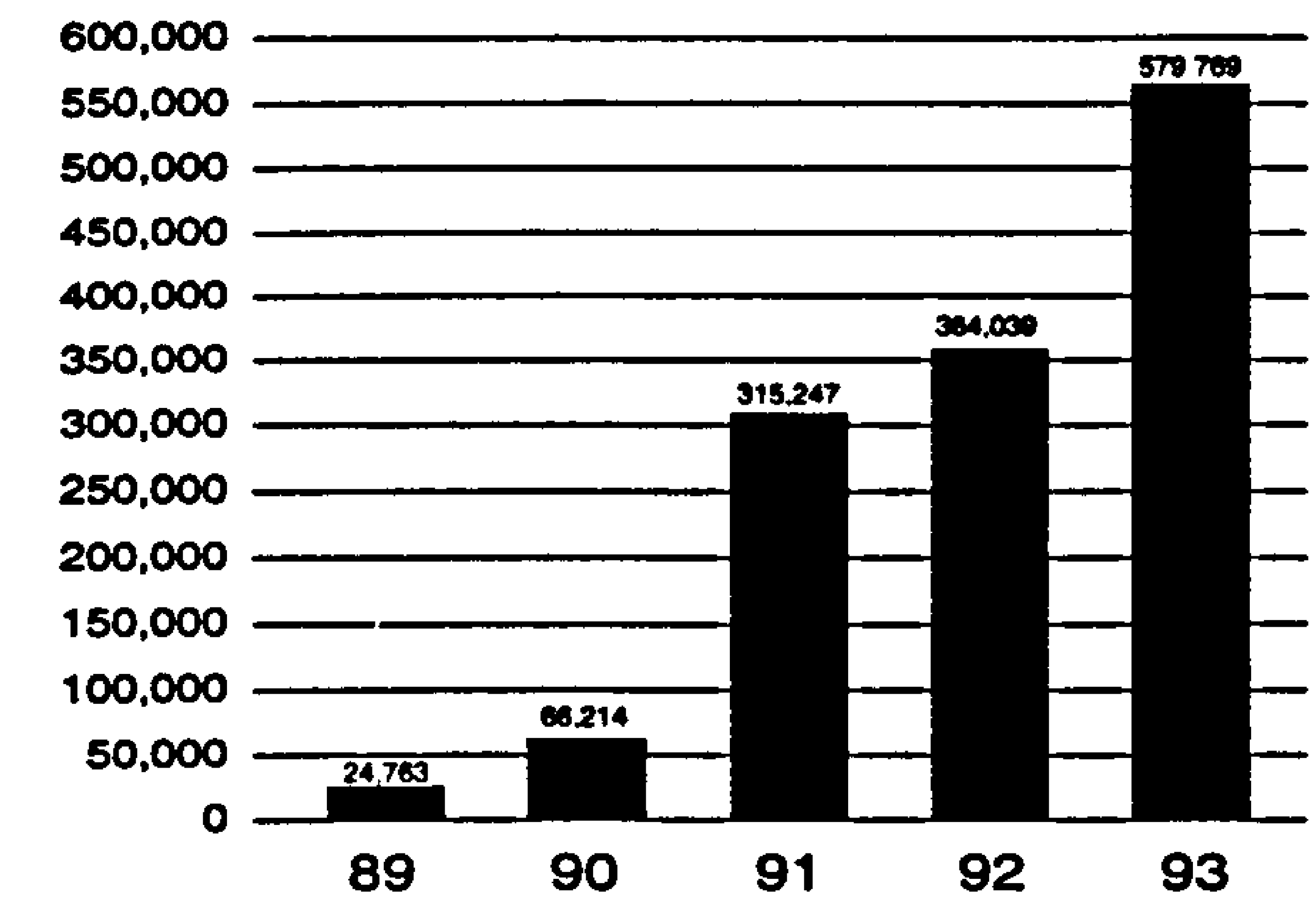
TURNOVER
JUMLAH NIAGA
(RM '000)



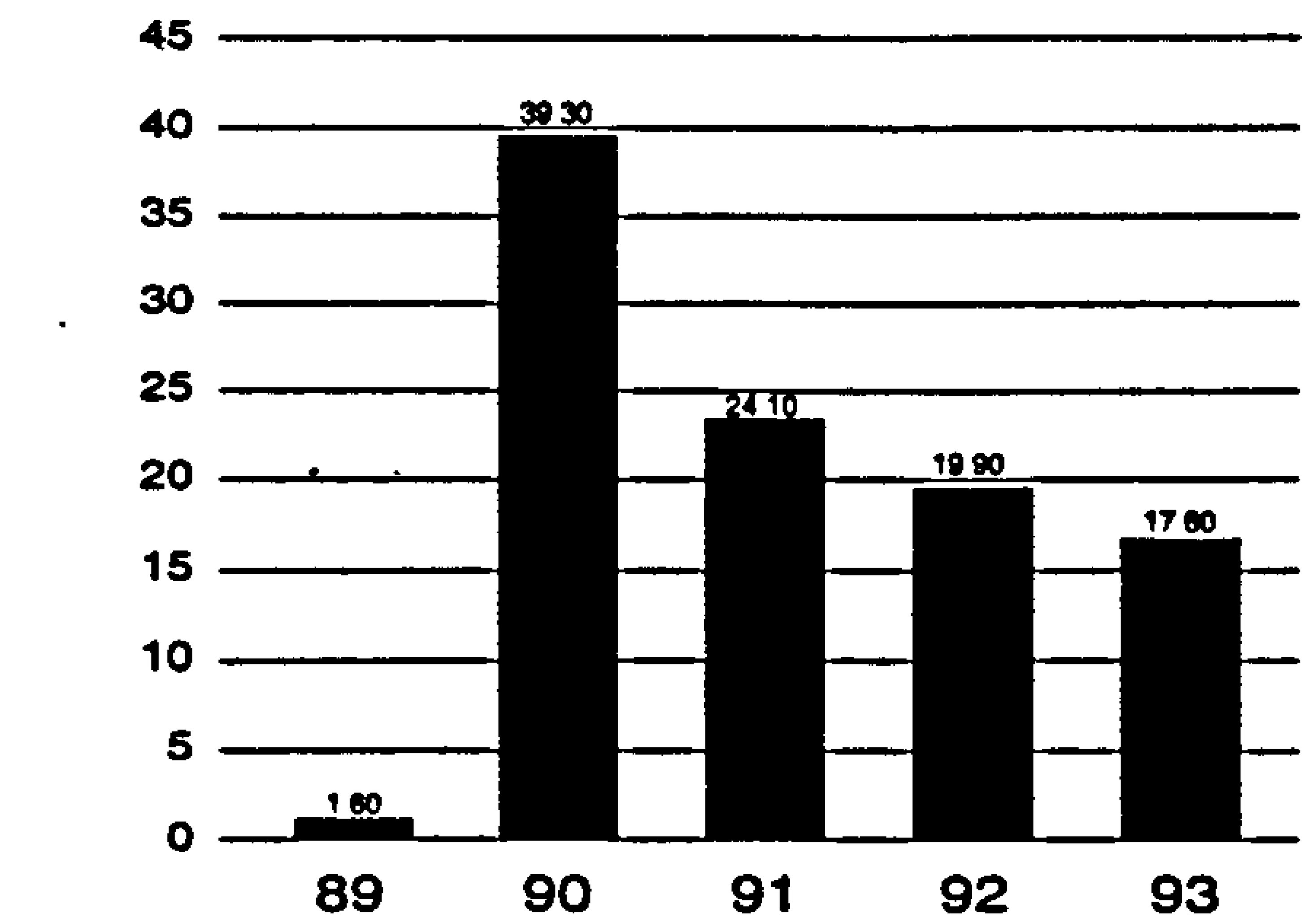
PROFIT BEFORE TAX
KEUNTUNGAN SEBELUM CUKAI
(RM '000)



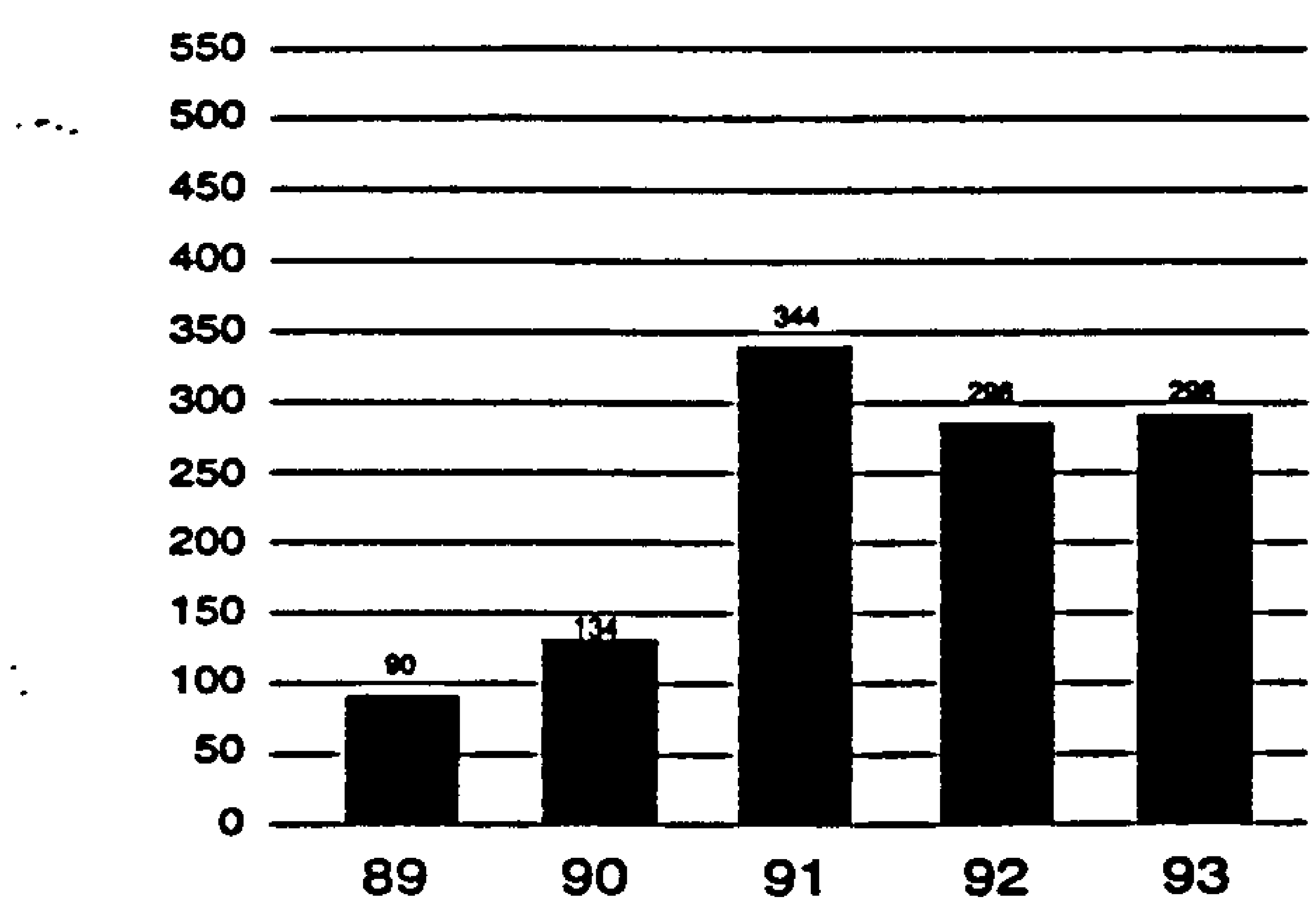
SHAREHOLDERS' FUNDS
DANA PEMEGANG SAHAM
(RM '000)



EARNINGS PER SHARE (BASIC)
PENDAPATAN SESAHAM (ASAS)
(SEN)



NET TANGIBLE ASSETS PER SHARE
ASET KETARA BERSIH SESAHAM
(SEN)



NUMBER OF EMPLOYEES
BILANGAN PEKERJA
(NUMBER)

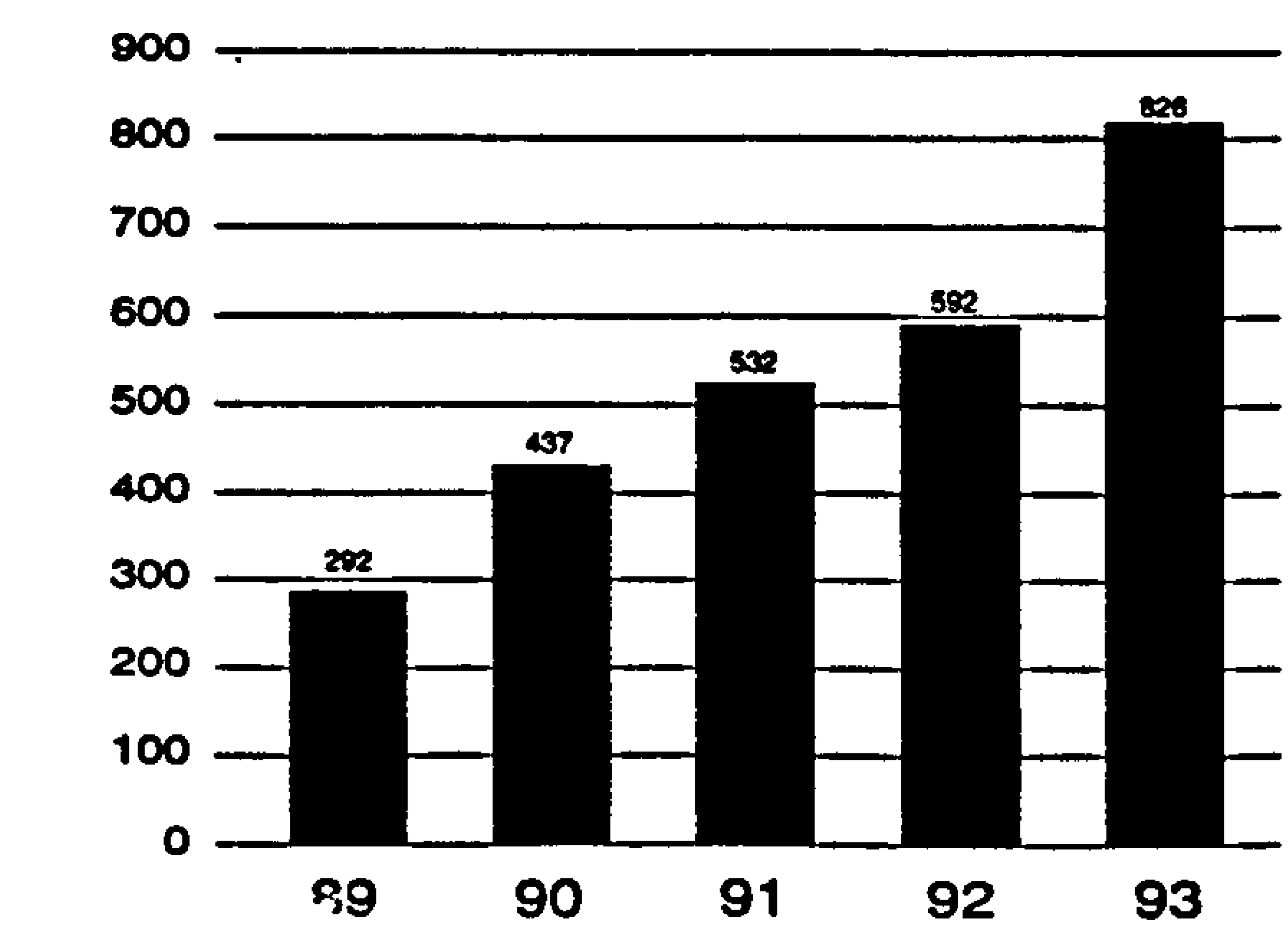
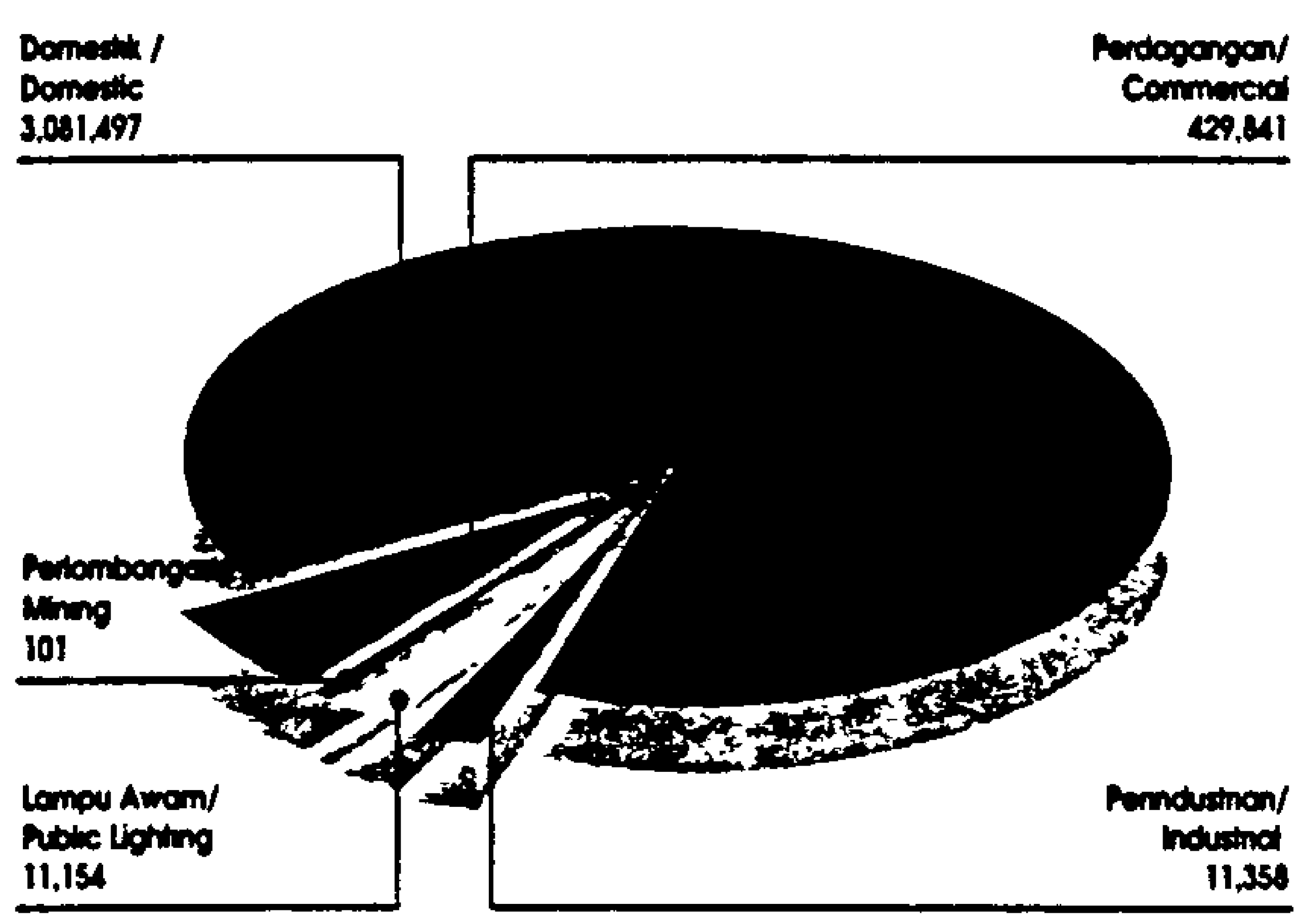


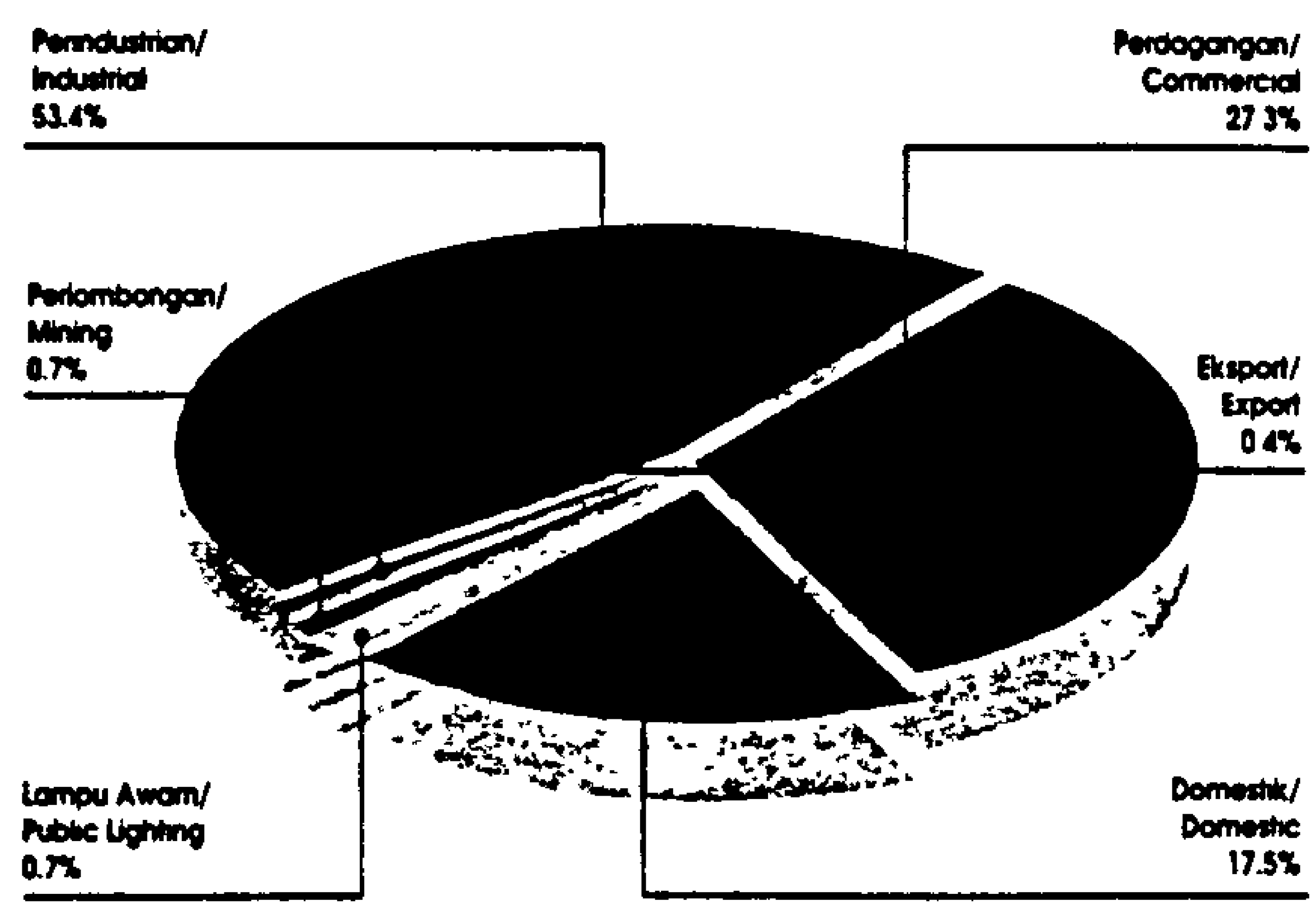
EXHIBIT 6.3
GOLDEN HOPE PLANTATION
1993 ANNUAL REPORT
PAGE: 29

PERATUS UNIT JUALAN MENGIKUT PENGKELASAN DAN PENGGUNAAN PELANGGAN
PERCENTAGE OF UNITS SOLD BY CUSTOMER CLASSIFICATION AND CONSUMPTION

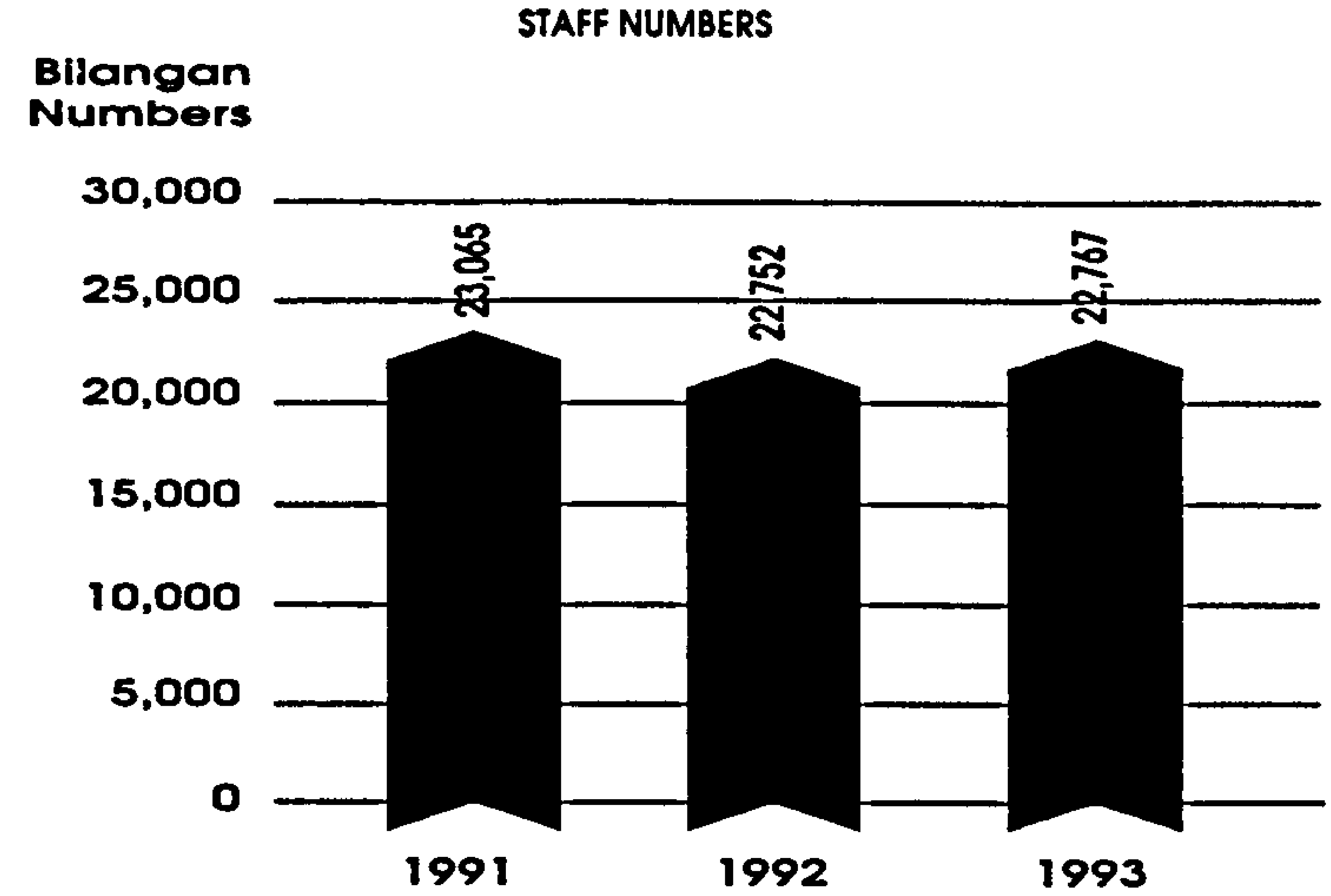
BILANGAN PELANGGAN
NUMBER OF CUSTOMERS



JUALAN ELEKTRIK
SALES OF ELECTRICITY



BILANGAN KAKITANGAN
STAFF NUMBERS



HARTA TETAP (KUMPULAN)
FIXED ASSETS (GROUP)

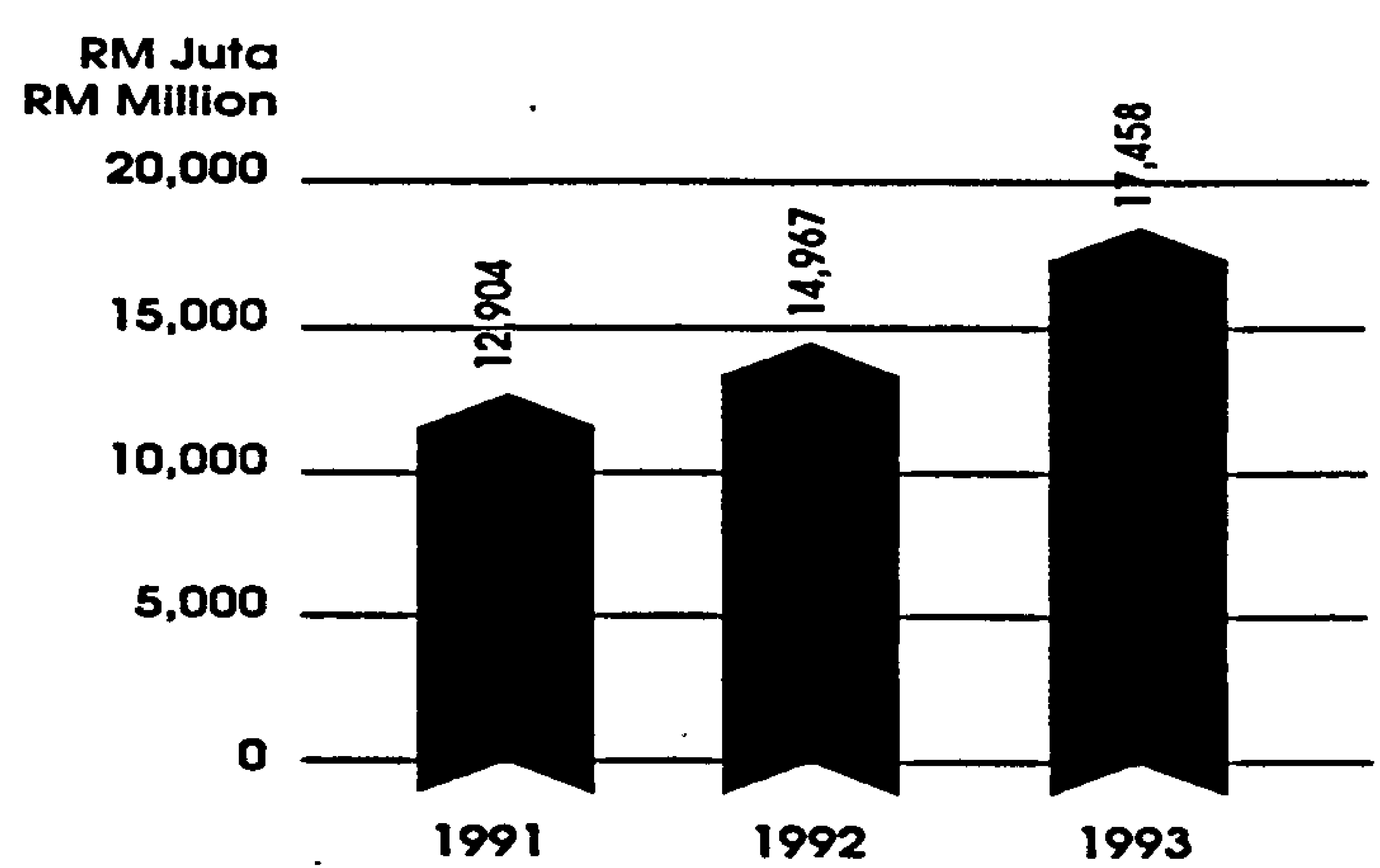


EXHIBIT 6.3
TENAGA NASIONAL BERHAD
1993 ANNUAL REPORT
PAGE: 5

Occupational Safety and Health

Safety and health in the workplace continue to be a high priority. The Company recognises that these matters are a management responsibility, and goals and objectives are set to help ensure that the desired results are attained.

The main objective of the Occupational Safety and Health Department at TNB is the prevention of accidents and ill health to Employees arising from activities at work. To achieve this, the department advises as well as assists other departments in promoting a safe work place and in complying with safety legislation. Efforts to increase safety awareness have been carried out through a series of seminars, dialogue sessions, safety courses in addition to the publication of newsletters, booklets and posters. The department compiles accident records, investigates accidents and monitors accident trends in the Company.

The Company considers safety and health programmes, both on and off the job, to be an investment in our most valuable resource, our Employees.

SUBSIDIARY/EQUITY PARTICIPATION

Malaysia Transformer Manufacturing Sdn Bhd

The Company has a 69.375 per cent equity in Malaysia Transformer Manufacturing Sdn Bhd (MTM). The company with a workforce of 284 manufactures distribution transformers of 50 kVA - 2000 kVA maximum voltage 33 kV, L V Swithgears of 800A - 2000A (indoor and outdoor types), combined substation units of 500 kVA - 1000 kVA and medium size power transformers of 5 MVA - 30 MVA maximum voltage 33 kV.

During the year, MTM produced 3,096 units of distribution transformers, 282 units of switchgear and 16 units of power transformers. Annual sales increased by 17 per cent from RM 67.1 million to RM 78.6 million. Profit before taxation for the year was RM 14,365,900, an increase of 19.0 per cent over the previous year's performance of RM 12,072,253.

The Company also holds a nine per cent equity in Federal Power Sdn Bhd (FP). This equity also incorporates two subsidiary companies of FP, namely FP Industries Sdn Bhd and FP Engineering Sdn Bhd.

"Safety and health in the workplace continue to be a high priority. The Company recognises that these matters are a management responsibility, and goals and objectives are set to help ensure that the desired results are attained"

One exception is a report from Westmount. Westmount recorded the accident rate for each of its projects undertaken:

> *"Antah Drillings' development Rig 450 continued to carry out its contract on schedule at a profitable level. It had a record number of accident-free operating days, which resulted in zero downtime. Among the highlights of Saship's recent performance are:*
>
> - *Construction on schedule (with zero accident rate) at the heaviest single lift platform topside by a Malaysian fabricator. The 2,000 metric ton unit was fabricated for Sarawak Shell Berhad.*
> - *Construction of the world's first and largest 103 MW Gas Turbine Power Barge for Ganda Holdings Berhad in record time of six months with zero accident rate.*
> - *Construction of the world's most advanced self-erecting, 97 metre drilling barge, Al Baraka 1, for the Singapore based Company, South East Asia Holdings Pte Ltd with zero accident rate." (Westmount).*

6.4.1g Employee Share Option Scheme

Profit sharing or employee share option schemes are still a new area for Malaysia. (see Jomo, 1994). Only twenty eight Malaysian companies disclosed information on employee share option schemes. Considering the collectivist culture in Europe which influenced its social reporting development towards human resource issues (see Chapter Three for a fuller explanation), it is interesting to note that only two out of six European disclose in this area. Could it be because of the local scenario, inactive trade unions and lax government regulations that the companies turn on a blind eye? There is no disclosure for US owned companies. Information disclosed by most companies is normally a passing statement by the chairman stating the existence of an employee share option scheme. One particularly good example of employee share option disclosure is from Wing Tiek (Malaysia), which provided the reason why the scheme is offered, the numbers of shares granted, and conditions of eligibility of employees to exercise the rights;

"We believe that sustaining growth can only be achieved through dynamic leadership coupled with continuous support and commitment from all staff. The ESOS recently implemented was to further recognise the contribution of employees whose valued services are considered vital to the operations and continued growth of the Group. It is also to further motivate employees towards a higher level of performance through greater productivity and loyalty. Pursuant to the Employees' Share Option Scheme which became effective on 12 October 1990, options were granted for 3,593,000 shares of RM0.50 each in the Company to eligible employees of the Group. The main features of the scheme are:

1. *Eligible employees are those who have been confirmed in the employment of the Group for at least one year prior to the date of the offer*
2. *The option granted may be exercised at any time within a period of five years from the date of offer of the option or any such shorter period as may be specifically stated in the offer.*
3. *The options may be exercised in full or in any lesser number of ordinary shares provided that the number shall be in multiples of 1,000 shares.*
4. *The exercise price for each ordinary share under the Employees' Share Option Scheme shall be the average of the mean market quotation of the shares as shown in the Daily Official List issued by The Kuala Lumpur Stock Exchange for the five market days preceding the respective dates of the options.*

As at 31 December 1993, all ordinary shares under Employees' Share Option Scheme have been fully exercised." (Wing Tick)

6.4.2 Community

Next in popularity to human resource data, community information is disclosed by thirty seven companies. However, only Malaysian and European owned companies appear to be interested in disclosing this information. Thirty three (55 per cent) Malaysian and three (50 per cent) European owned companies disclose some information on the community while there is no disclosure from US owned companies (see Table 6.4). High disclosure in this area might be due to the introduction of the

'Caring Society Policy' and 'Vision 2020' by the government in the early nineties (see Chapter Two). Since the annual report is targeted mainly to the shareholders and potential investors, disclosing companies might want their readers to know that they are a good corporate citizen, adhering to the government's policy and that they are accountable to the wider public.

Table 6.11 below shows the amount of disclosure made on community activities by country/region of ownership, whilst Table 6.12 describes the amount of community disclosure by type of industry. The average number of sentences disclosed by Malaysian companies is 6.45 sentences, compared to the European companies disclosure of only 2.67 sentences. US companies did not make any disclosure at all on the community. A Malaysian company also disclosed the most number of sentences (twenty seven). Even though trading companies reported the most amount of community disclosure with 90 sentences, it is not surprising that financial companies appear to disclose the most in term of average (14.7 sentences per company).

Table 6.11: Total Amount of Community Disclosure by Country/Region of Ownership

	Total Sentences	**Average**	**Minimum**	**Maximum**	**Incidence**
Malaysia	215	6.45	1	27	33
Europe	8	2.67	1	6	3
USA	0	0	0	0	0
Others	2	2	2	2	1
Total	**223**	**6.0**	**1**	**27**	**37**

Table 6.12: Total Amount of Community Disclosure by Industry

	Total Sentences	Average	Minimum	Maximum	Incidence
Trading	90	6	1	17	15
Finance	44	14.7	2	27	3
Properties	22	5.5	1	11	4
Plantation	13	4.3	1	8	3
Consumer	29	5.8	1	12	5
Manufacturing	22	3.7	1	8	6
Construction	3	3	3	3	1
Total	**223**	**6.0**	**1**	**27**	**37**

Table 6.13: Sub-Categories of Community Disclosure by Country/ Region of Ownership

Sub Category	Malaysia	Europe	USA	Others
Education	45.5	0	0	0
Sports and Culture	48.5	66.7	0	0
Poor, Health and Safety	66.7	66.7	0	0
Charity	54.5	0	0	100

Table 6.13 above summarises the disclosure made for sub-categories of community information by country/region of ownership. A majority of Malaysian owned companies, disclosing community information reported on eradicating poverty, and community health and safety (66.7 per cent). US companies do not have any disclosure. The next area of concentration is on charity. Fifty five per cent of Malaysian owned companies disclosing on the community disclosed information on charitable activities.

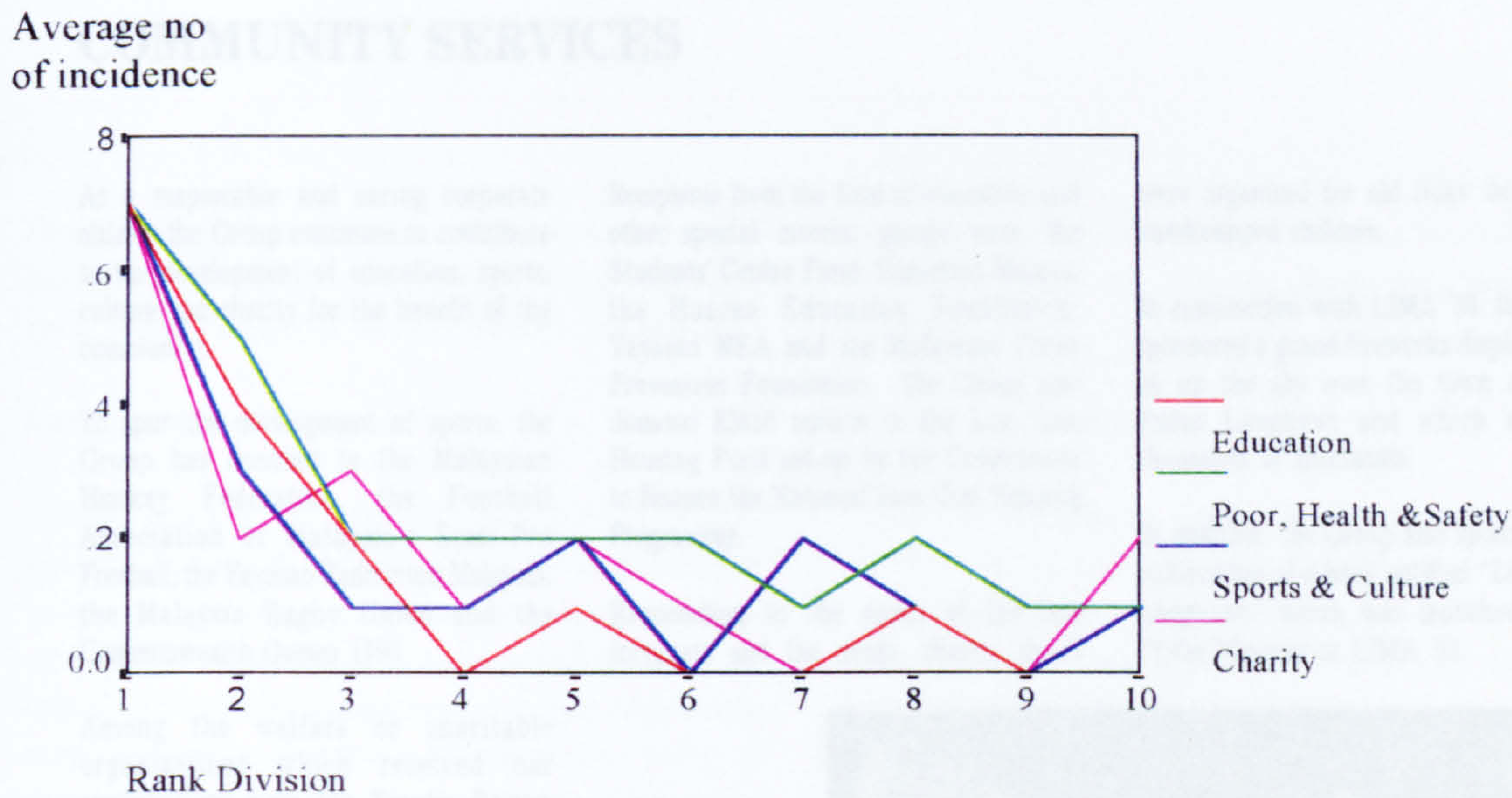
Community disclosure was given the highest level of attention by companies in the trading and property sector. This is to be expected since the trading and property sector deals directly with the public. To market their company and products/services, they may involve themselves with many social activities. Could it be that the idea of a Social Contract may have stimulated firms to ensure that good works are recognised by the local community, upon whose patronage they rely for survival? In the property sector, social activity such as sponsoring cultural and sports activities' etc., could help them gain public confidence and in turn promote sales. It is, however, surprising that the consumer and financial sectors have disclosure rates of only 42 per cent and 30 per cent respectively (see Table 6.14). Since they are also directly involved with the public they may be expected to disclose as much as the trading and property sectors. Limited annual report access by the 'larger public' could be the reason for this. Community is also given less attention by the manufacturing and construction industry. Could this be because these companies do not have direct contact with the public?

Table 6.14: Sub-Categories of Community Disclosure by Industry

Industry	**Total Disclosure**	**Education**	**Sports and Culture**	**Hardcore poor, health and safety**	**Charity and other services**
Trading	75	30	35	65	40
Finance	30	20	20	30	20
Properties	66.7	16.7	16.7	33.3	0
Plantation	60	40	20	20	
Consumer	41.7	16.7	33.3	25	16.7
Manufacturing	40	13.3	20	13.3	26.7
Construction	25	0	0	25	0

Chart 6.4 shows the relationship between company size and sub-category disclosure. Eight companies out of ten in division one, five in division two, whilst two each in division three to six disclose information on hard-core poor and health and safety to the community. This shows that there is a relationship between this sub category of disclosure and company size. The bigger the company, the more companies disclose information. The same also applies to charity and community education.

Chart 6.4: Sub-Categories of Community Disclosure by Company Size



Most companies disclosure ranges from a few sentences to a paragraph or two for community activities which is normally reported in the chairman's statement, operational review and corporate calendars. A few companies, for example, Genting Berhad and Telekom, provided an entire section for community activities (see Exhibit 6.5 and Exhibit 6.6, pages 149 and 150).

6.4.2a Disclosure Practice: Helping the Poor, and Health and Safety

The most common sub-category disclosure under community activities is helping the poor, community health and ensuring public safety. However, the percentage of companies disclosing only amounts to less than forty percent for Malaysian companies and thirty three percent for European owned companies. Other foreign owned companies have no disclosure at all on this sub-category.

COMMUNITY SERVICES

As a responsible and caring corporate citizen, the Group continues to contribute to the development of education, sports, culture and charity for the benefit of the community.

To spur the development of sports, the Group has donated to the Malaysian Hockey Federation, the Football Association of Malaysia's Semi-Pro Football, the Yayasan Badminton Malaysia, the Malaysia Rugby Union and the Commonwealth Games 1998.

Among the welfare or charitable organisations which received our contributions were the Tuanku Bainun Foundation, BAKTI, the Malaysian Heart Foundation, Rumah Amal Cheshire Selangor, the Ex-Servicemen's Association of Malaysia, the Disabled Persons Welfare Sports Festival and the Lions Life-Line Leukaemia Fund.

Recipients from the field of education and other special interest groups were, the Students' Centre Fund, Universiti Malaya; the Huaren Education Foundation; Yayasan MEA and the Malaysian Crime Prevention Foundation. The Group also donated RM10 million to the Low Cost Housing Fund set-up by the Government to finance the National Low Cost Housing Programme.

Responding to the needs of the less fortunate and the needy, charity shows were organised for old folks' homes and handicapped children.

In conjunction with LIMA '93, the Group sponsored a grand fireworks display which lit up the sky over the town of Kuah, Pulau Langkawi and which attracted thousands of spectators.

In addition, the Group also sponsored the publication of a book entitled "Legends of Langkawi" which was launched by the Prime Minister at LIMA '93.

Chairman YBhg Tan Sri Lim Goh Tong presenting Resorts World's donation of RM10 million towards the Low Cost Housing Fund to Deputy Prime Minister YAB Dato' Seri Anwar Ibrahim representing the Government for the National Low Cost Housing Programme

Prime Minister YAB Dato' Seri Dr. Mahathir Mohamad received RM50,000 on behalf of Yayasan Jantung Malaysia from our Chairman YBhg Tan Sri Lim Goh Tong.

Presentation of donations-in-kind to the Rumah Amal Cheshire Selangor by YBhg Tan Sri Alwi Jantan, Executive Director (Public Affairs & Human Resources) of Resorts World Bhd

EXHIBIT 6.5
GENTING BERHAD
1993 ANNUAL REPORT
PAGE:23

bawah program ini. Kumpulan juga menawarkan 492 biasiswa kecil kepada pelajar-pelajar yang berpotensi yang sedang belajar di sekolah-sekolah menengah.

Tanggungjawab Sosial

Tanggungjawab kita terhadap Wawasan 2020 tidak berakhir dengan hanya menyediakan rangkaian telekomunikasi yang menepati Wawasan tersebut. Sebagai warganegara korporat yang bertanggungjawab, kami memberi komitmen kepada pembangunan negara serta mengseimbangkan objektif perniagaan dan sosial. Di mana kami tidak dapat memainkan peranan secara langsung, kami membantu dengan memberi sumbangan kepada aktiviti-aktiviti yang dapat memajukan Malaysia.

Syarikat telah tampil ke hadapan semasa tragedi runtuhan Highland Towers di mana beberapa buah generator bergerak telah dihantar dan pusat komunikasi 24 jam telah ditubuhkan bagi membantu kerja-kerja menyelamat. Syarikat juga telah memberi sumbangan perubatan dan kewangan kepada salah seorang anggota, Roland Koh, yang kehilangan 3 orang anaknya dalam tragedi tersebut.

Telekom Malaysia turut memainkan peranan yang lebih besar dalam menyahut seruan Kerajaan agar sektor swasta meningkatkan usaha dan bergabung tenaga dengan Universiti-Universiti untuk mempertingkatkan pendidikan dan kemudahan latihan dengan memberi sumbangan sebanyak RM2 juta kepada Tabung Biasiswa Universiti Islam Antarabangsa.

Di samping itu, Telekom Malaysia juga telah menyumbangkan RM1.9 juta untuk aktiviti-aktiviti kemasyarakatan seperti sukan, pendidikan, sosial, kebajikan, kebudayaan dan kesenian yang dapat memberi manafaat kepada masyarakat.

the Group also offered 492 minor scholarships to promising students currently studying in secondary schools.

Social Responsibility

Our responsibility towards Vision 2020 does not stop at providing telecommunication services that befits the Vision. As a responsible corporate citizen, we are strongly committed to nation building and to strike an appropriate balance between business and social objectives. Where we are unable to play a direct role, we help by funding activities that contribute towards building a better Malaysia.

The Company came forward during the tragic event of the Highland Towers collapse by immediately sending mobile power generators and setting-up a communication centre for use in the 24-hour rescue operation. The Company also provided medical and financial support to the bereaved family of one of its employees, Roland Koh, who lost three sons in the tragedy.

Telekom Malaysia has decided to play a bigger role in answering the Government's call for private sector to step up efforts in collaborating with Universities in enhancing education and training facilities and contributed RM2 million for the International Islamic University Scholarship Fund.

In addition, Telekom Malaysia also contributed RM1.9 million to a number of sporting, educational, social, welfare, culture and arts activities for the benefit of the community.

Most companies that disclosed in the area mentioned their participation in the IKHTIAR project, a government project to assist the poor, especially in rural areas, by providing low cost housing. The government would normally seek the support of large companies to participate in this project. Companies for their part would generally mention the amount of contributions they made to IKHTIAR for example;

> *"The Maybank Group also played its part in assisting the hard-core poor in rural areas by donating RM10,000 to the Tabung Projek Ikhtiar under the Yayasan Pembangunan Ekonomi Islam Malaysia. In addition, Maybank contributed an initial sum of RM1 million to Amanah Ikhtiar Malaysia for the establishment of a Maybank-AIM Loan Scheme to help the hard-core poor." (Malayan Bank).*

Providing health benefits to the poor is also mentioned by some companies. Property developers for example Sime UEP, on the other hand, would normally include residents' safety as part of their community activities;

> *"The opening of another "Pondok Polis" in UEP Subang Jaya in March, will definitely improve the security of the township. In support of the Crime Prevention Campaign and Neighbourhood Watch Scheme launched by the Shah Alam police, Sime UEP contributed posters for distribution to the residents. The posters were informative, providing useful tips on crime prevention. The campaign was held at PKNS Kompleks, Shah Alam." (SIME* UEP).

6.4.2b Disclosure Practice - Charity and Other Community Services

Charity and other community activities are mostly reported by Malaysian companies. Disclosure by foreign owned companies is non-existent except for one company from Japan. Charity contribution disclosures varies from a few sentences to an entire page. Other community activities disclosed ranged from 'gotong royong' participating in the National Day Parade to helping in the case of the Highland Towers Tragedy, the collapse of a condominium in late 1993. Disclosure is normally narrative in nature. For example;

> *"As part of an ongoing programme to build and foster a caring and sharing Malaysian society, the business has been actively involved in a number of 'gotong royong' exercises, including the repainting of the Rumah Bakti Orphanage, the Rumah Insaniah Dr Siti Hasmah rehabilitation centre and the Ampang New Village old folks home. The business also sponsored paints for mural paintings during Merdeka day. ICI Agrochemical intensified research and development programmes with the focus on improving the well being of our customers, end-users and the environment. One innovative method saw us using puppets and comic books to educate students on important health and safety issues." (Chemical Company of Malaysia).*

> *"On community services, more urban and rural bus shelters were built at various locations. The company maintained its annual grant to the St John-Sports TOTO Non-Emergency Ambulance Service for the needy in Klang Valley, Perak, East Coast, Negeri Sembilan and Johor. On charity, the company continued to subscribe to the concept of establishing a more caring Malaysian society and donated during the year under review to the Perak Chinese Maternity Hospital to set up an operation theatre and to Sekolah Sri Mengasih, Sabah for maintenance of the handicapped children.*
> *Your Board of directors wishes to dedicate a special word of condolences to the families who have lost their properties and also their loved ones in the Highland Towers tragedy. For those staff who have helped out in the rescue operations, a special word of commendation to their spirit and effort shown. It is a good reminder of our social obligations to the country and fellow citizens besides our work" (Berjaya).*

Disclosure is normally in the operational review and corporate calendar sections. Most companies disclosing charity information would enhance the disclosure by inserting pictures of a 'mock cheque' presentation. One company, Genting Berhad, even lists each and every organisation that it supports (see Exhibit 6.7).

COMMUNITY SERVICES

As part of the Group's annual charity drive towards the betterment of the welfare of the less privileged as well as to promote the development of education, culture and sports, the Group donated to the following various community projects and charitable organisations such as:-

- Brickfields Retarded Children's Home,
- Disabled Persons Welfare Sports Festival,
- Jubilee Old Folks' Home,
- Malaysian Association for the Blind,
- Malaysian Council for Children Welfare,
- Malaysian Heart Foundation,
- Selangor & Wilayah Persekutuan Rehabilitation Centre for the Handicapped,
- Selangor Cheshire Home,
- Serdang Old Folks' Home,
- Taman Sinar Harapan,
- The Little Sisters of the Poor,
- The Salvation Army, and
- Various schools in Peninsular Malaysia which received yearly scholarships.

The Group further contributed RM10 million towards the National Low-Cost Housing Fund in support of the Government's national low-cost housing programme for the poor

Tan Sri Mohd Amin, Director of Genting Berhad distributing "Ang Pows" and presenting donations-in-kind to the Selangor Cheshire Home and Brickfields Retarded Children's Home

EXHIBIT 6.7
GENTING BERHAD
1993 ANNUAL REPORT
PAGE: 22

6.4.2c Disclosure Practice - Education

Out of a total of thirty seven companies that disclose information on the community, only Malaysian owned companies appear to be interested in disclosing information on education. It is interesting to speculate why companies, especially foreign owned ones are not disclosing any information on education. One reason could be because the government are not placing as much stress on community education as other community activities. The amount of disclosure is expected to increase in the mid-nineties as the government is promoting Malaysia to become the region's education centre (see Chapter Two).

The total amount of disclosure in this area is also minimal with most companies mentioning only a sentence or two. Typically, the disclosure concentrates on giving scholarships and grants to the needy, awards and sponsoring student activities to students ranging from primary schools to institutes of higher learning. Disclosures are chiefly narrative. Malaysian Banking for example;

> *"In the area of education, the Group sponsored the 'Kuiz Menabung Kumpulan Maybank - Akhbar Dalam Darjah' with Berita Harian. This quiz is targeted at school children with the objective of inculcating a deeper knowledge on banking as well as encouraging the savings habit, in line with the government's encouragement to increase national savings." (Malaysian Bank)*

However, Cement Industries of Malaysia does include monetary disclosure;

> *"As a responsible corporate citizen who firmly believes in producing learned individuals to assist in achieving the nation's aspirations, CIMA contributed RM4 million to the Renong Group Scholarship Fund. A programme which is aimed at identifying outstanding students who have demonstrated clear management and leadership potential." (CIMA).*

One exceptional example of disclosure on community education is reported by Tenaga Nasional Berhad, a giant energy supply company, who include the rationale behind the activity, the amount spent, and for whose benefit.

> *"An External Research carried out recently revealed that Malaysians placed education as a number one priority they would like to see in corporate philantrophy from industry giants. Therefore, training has been placed as an important agenda in our corporate citizenry duties. As the Sultan Ahmad Shah Training Institute (ILSAS), celebrates its 10th anniversary this year, the Company is upgrading the institute to cater for more training facilities.*
> *During the financial year, the RM40 million Tenaga Nasional Foundation was officially launched at ILSAS by the Minister of Finance, YB Dato' Seri Anuar Ibrahim on 6th July, 1993. The foundation is one of the community relations tasks set by TNB to assist the government in making Vision 2020 a reality in terms of a skilled workforce for the future.*
> *The Tenaga Nasional Foundation seeks to provide scholarships for the needy and to reduce the burden of the poor. It also aims to cultivate and enhance the standard of education in the country. In addition, the funds would also be used to raise intellectual capital, quality of physical education and the welfare of needy students." (Tenaga Nasional Berhad)*

6.4.2d Disclosure Practice - Sports and Culture

Similar to disclosure on helping the poor and health and safety, information on sports and culture is disclosed only by Malaysian and European owned companies. Normally large companies would sponsor big events, for example, the Thomas Cup (badminton) and the Malaysian Semi-Pro League (football). It is a normal practice in Malaysia for sport associations to seek assistance from large companies in sponsoring certain activities or events. Berjaya Group, for example, are sponsoring most of the events organised by the Badminton Association of Malaysia. Disclosure in this sub-category is mainly narrative in nature and commonly found in the operational review under the heading of community activities. Berjaya stated:

"During the year under review, the Company has been active in fulfilling its social responsibility and continued to pursue an aggressive sponsorship programme. We are pleased that the five year TUO Project (Thomas Cup, Uber Cup and Olympics) which was jointly undertaken by Sports TOTO and the Badminton Association of Malaysia was successfully completed on 31 DEC 1993. The other sports events that the company supported include Larian Malaysia Cergas, Penang Bridge run, 2nd World Chinese Wushu Championship, PJ Half Marathon, Malay Mail Big Walk, Man of the Year Award, Kuantan Beach Run, Badminton Coaching Clinics, Olahraga Orang2 Cacat and the 7th Asian Squash Championship." (Berjaya)

Malayan Bank on the other hand reported in its corporate dairy,

"In the promotion of arts, the Group continued to sponsor art exhibits at Maybank's Balai Seni. A total of 20 exhibitions featuring art works in various media were held during the year." (Malayan Bank)

6.4.3 Products

The amount of product is information is noticeable only by its general absence. The average sentences disclosed on product is only 2.37 by 38 companies. Maximum sentences disclosed are only sixteen (see Table 6.15). This is surprising, given that the product itself is the most immediate connection that a consumer has with the firm and will therefore be very influential upon its reputation. For firms not to give themselves a reference for the standard of their product appears to be a golden PR opportunity lost (see for example consumer and finance companies in Table 6.16). One reason could be that consumers or the public at large do not generally seek access to the annual report.

Table 6.15: Amount of Product/Services Disclosure by Country/Region of Ownership

	Average	Minimum	Maximum	No of Incidence
Malaysia	2.4	1	16	30
Europe	2.17	1	8	6
USA	2	2	2	1
Others	3	3	3	1
Total	**2.37**	**1**	**16**	**38**

Table 6.16: Amount of Product/Services Disclosure by Industry

	Total Sentences	Average	Minimum	Maximum	Incidence
Trading	39	3.9	1	16	10
Finance	5	1.7	1	5	3
Properties	11	2.8	1	6	4
Plantation	4	1.3	1	3	3
Consumer	6	0.9	1	2	7
Manufacturing	22	2.4	1	8	9
Construction	3	1.5	1	2	2
Total	**90**	**2.4**	**1**	**16**	**38**

Product and services were classified under three sub categories; General Statement, Product Quality and Safety, and Research and Design. General Statement disclosure includes awards and other product-related disclosure. Most companies disclosing on Product/Services tend to disclose on Product Quality and Safety, and in the form of a General Statement. Twenty one out of thirty eight (55.3 per cent) companies disclosed on Product Quality and Safety information and 18 companies (47.4 per cent) disclosed a General Statement (see Table 6.17). Disclosures on Research and Design were minimal. Analysis by country in the product/services sub category shows that most European (83.3 per cent) companies favour disclosing information on Product Quality and Safety. Only fifty per cent of Malaysian companies disclosed on the same sub category (see Table 6.17). Only Malaysian companies disclosed information on Research and Design (16.7 per cent).

Table 6.17: Sub-Categories of product Disclosure by Country of Ownership

Ownership	Gen Statement		Quality/Safety		R & D	
	No	%	No	%	No	%
Malaysia	14	46.7	15	50	5	16.7
Europe	2	33.6	5	83.3	-	-
USA	1	100	1	100	-	-
Others	1	100	-	-	-	-
Total	**18**	**47.4**	**21**	**55.3**	**5**	**14.0**

6.4.3a Disclosure Practice

Disclosure on products and services, normally found in the operational review section of the annual report, mainly concentrates on the types of products offered, safety, environmental friendliness, after sales service, awards received and research and development. All companies that disclose product information only mentioned good news. A majority of companies disclosing this information only do so in a very general and uninformative manner for example;

> *"While declining customer loyalty in an ever increasing competitive environment would be an area of concern to all financial institutions alike, we believe that customer loyalty has to be earned. The traditional personal touch in our service has been the differentiating factor in customer retention." (Hock Hua Bank).*

Among the exceptions is Nylex who reported on Research and Development, accreditation to ISO 9001 and also international recognition of ISO 9002 for its products;

> *"The greatest asset of Nylex is its quality culture that has transcended throughout the Group at all levels. From our operations to our products and people, doing the right thing the first time, and every time, is our guiding force.*

Harnessed through decades of experience, solid R&D and sound business decisions, the Nylex Group has emerged to become the leader in polymer, engineering, packaging and building products. Our expertise and versatility have enabled us to penetrate into even the toughest markets world-wide.
Buoyed by its corporate mission of quality at cost efficiency, Nylex became the first Malaysian manufacturer to receive the coveted ISO 9001 award for product excellence. Nylex's management expertise was duly recognised when they received the Quality Management Award from the Ministry of Trade and Industry.
The quality tradition established by Nylex has been emulated by its subsidiaries. In 1993, Nycon Manufacturing Sdn Bhd achieved the ISO 9001 award for excellence in the manufacturing of rotomoulded products. During the same year, Malaysian Roofing Industries Sdn Bhd was also awarded the ISO 9002 certification for producing international quality metal coated roofing products." (Nylex).

Another exception is OYL Industries which devoted four pages towards its products description, quality, after sales service etc. (see Exhibit 6.8).

Recognised as a leader in air conditioning systems and products in Malaysia, OYL Industries Bhd (OYL) has, in the last two years, spread its influence regionally by establishing businesses in China and Indonesia.

And, having set a firm foundation regionally, OYL took a significant step towards the globalisation of its activities when it acquired US-based SnyderGeneral in May 1994. This acquisition of a major US company by a Malaysian public-listed organisation is the first in Malaysian corporate history, and stands as testimony to the dynamism of OYL.

SnyderGeneral, since renamed AAF-McQuay Inc., has a history of innovation and excellence in air-conditioning and filtration products and services dating back to 1842. Today, AAF-McQuay's distribution network spans more than 75 countries, with 25 manufacturing facilities in 10.

Its brands are renowned for performance and quality worldwide; its staff acknowledged for their expertise, skills and dedication.

AAF-McQuay's inclusion to the OYL Group raises the Group's staff strength from 1,500 to 8,000, and boldly underlines OYL's commitment to be a world leader in the design, manufacture, marketing and servicing of air-conditioning and air quality control systems.

BECAUSE WE SHARE THIS EARTH

Today, acutely aware of the fragility of the environment, mankind endeavours to reverse much of the wrongs and preserve what's left of nature's beauty.

At OYL Industries Bhd, McQuay International and AAF International, we are committed to the environment. We know that our future, and that of our children, depend on our environmental concern and positive action.

We spare no costs in reducing the environmental impact of our operations. We lead the way in the use of non-ozone depleting refrigerants in our products and in reducing their energy requirements. And we assist our customers in doing the same.

Why? Because we share this Earth with others.

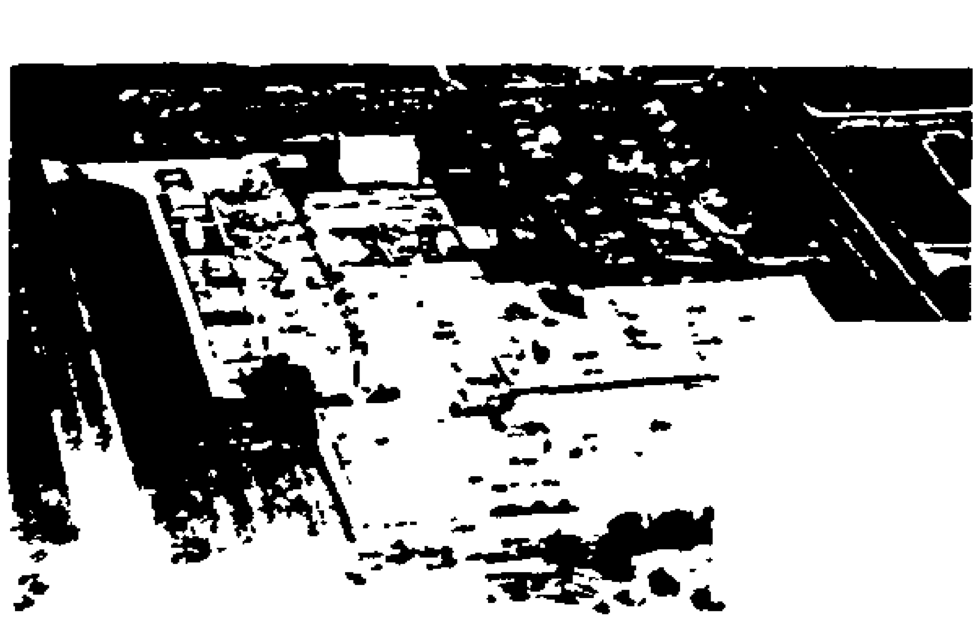
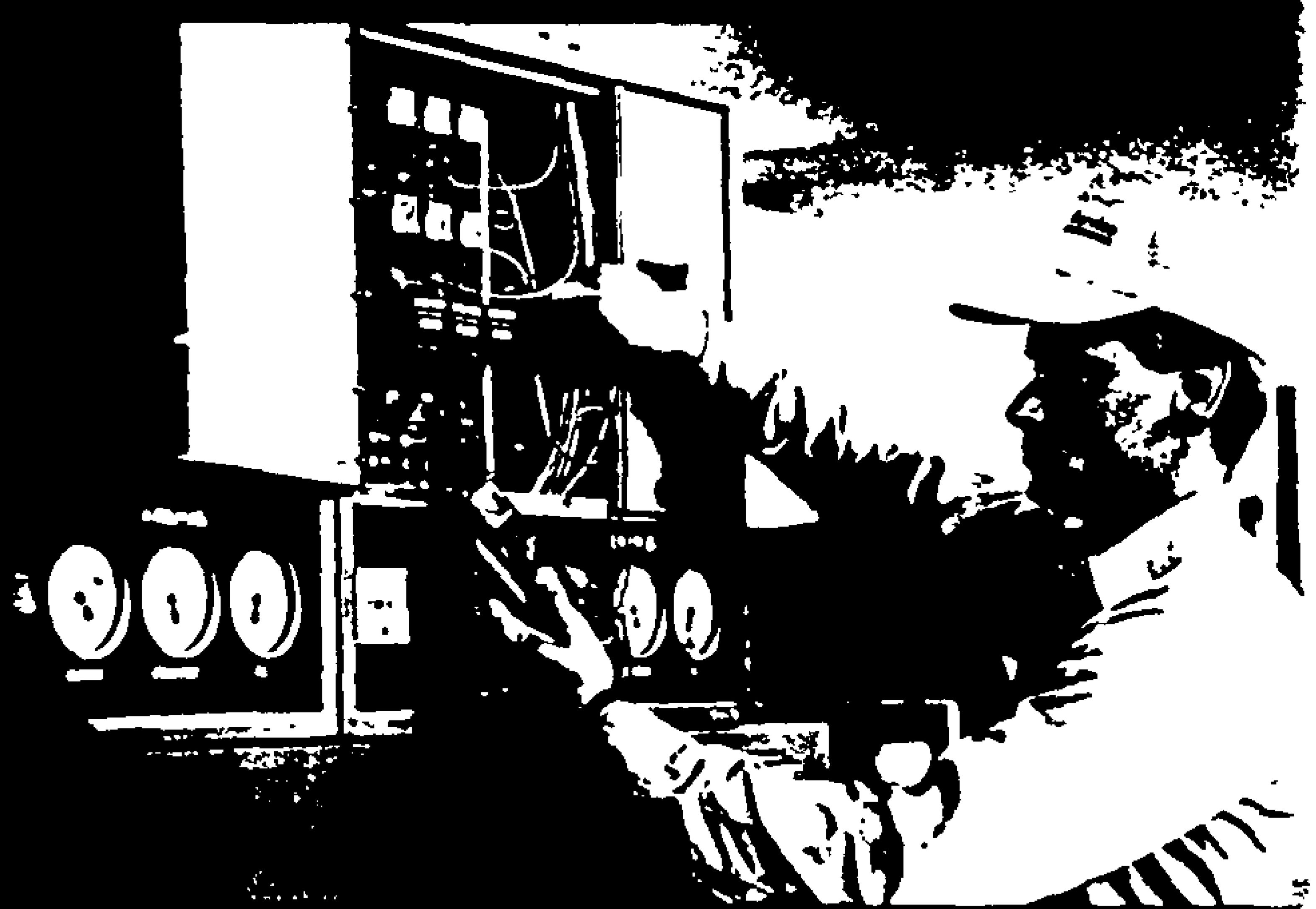


EXHIBIT 6.8 (A)
OYL INDUSTRIES
1993 ANNUAL REPORT
PAGE:3

A GLOBAL VISION

Utilising the latest in technology and state-of-the-art manufacturing process, AAF *International*'s gas turbine intake air-filtration and acoustical systems significantly reduce erosion and fouling of machinery components and airflow noise.

As a leader in the industry, AAF International is committed to extensive R&D to assure product improvements and innovations in meeting the more discerning demands of customers worldwide, and with the ultimate objective of controlling the quality of air and improving the quality of life.



Aftersales Service

AAF-McQuay air quality products and systems are installed in many prominent facilities worldwide and its brands are universally recognised as innovative and high quality. It is thus no surprise that AAF-McQuay systems have found more than 50,000 commercial, institutional and industrial customers globally.

But to AAF-McQuay, selling and installation represent only the beginning of an unmatched commitment to serve its customer. From comprehensive spares and replacement parts inventory to expert reevaluation of systems and applications, AAF-McQuay's aftersales service keeps customer's equipment operating at peak efficiency.

EXHIBIT 6.8 (B)
OYL INDUSTRIES
1993 ANNUAL REPORT
PAGE: 5

A GLOBAL VISION

AAF International [illegible] itself as the [illegible] air filtration [illegible] recognized [illegible] become industry [illegible] design, performance and reliability.

AAF International's leadership [illegible] to its dedicated and talented staff, the application of [illegible] and [illegible] service.

The company's [illegible] replacement, retail and commercial, industrial and institutional air filters; air pollution control systems; clean room equipment; [illegible] products; nuclear products; and machinery intake filtration and acoustical systems; a first choice for a myriad of applications.

In keeping with the company's continuous [illegible] tive air quality control systems, AAF's air-filtration equipment and systems are capable of removing airborne contaminants right down to 0.12 microns from intake and [illegible] suitable for hospital, laboratories and in the production of the pharmaceutical, electronics and other ultra-clean production environments.

AAF International's air pollution control equipment and systems are designed to remedy air quality problems caused by chemical, dust and other particulate emissions from industrial and commercial processes.

EXHIBIT 6.8 (C)
OYL INDUSTRIES
1993 ANNUAL REPORT
PAGE: 7

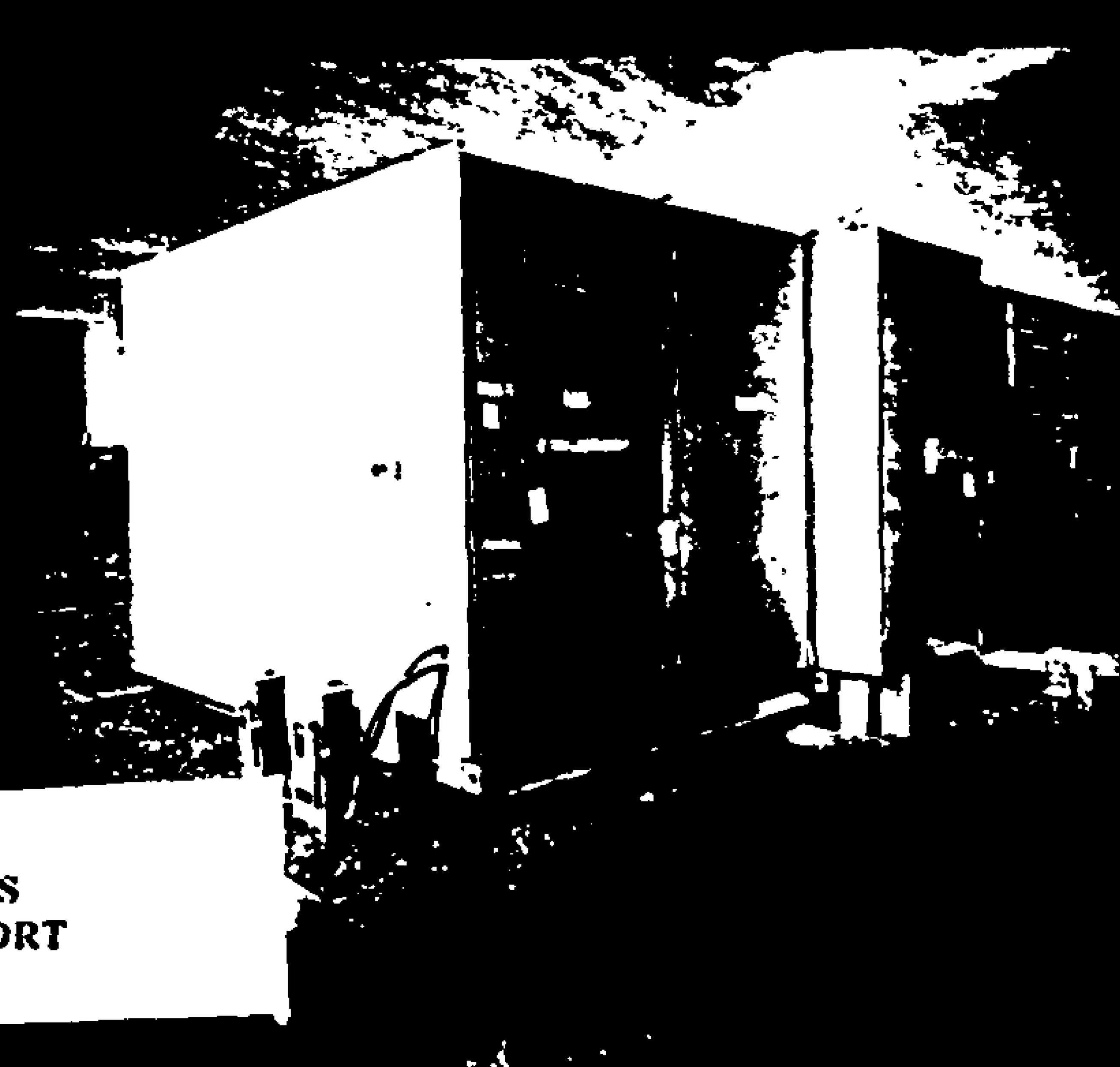
A GLOBAL VISION

McQuay International

McQuay International designs, manufactures and markets a comprehensive line of heating, ventilating and air-conditioning equipment and systems. These include: central station system, air handling units; self contained air-conditioners; heat pumps; centrifugal chillers; axial fans; ventilation systems; and sophisticated HVAC control devices.

Backed by people devoted to innovation, quality and service, McQuay International products and systems offer solutions to even the most unusual HVAC requirements, whether for commercial, institution or industrial application. McQuay International also prides itself with a highly-trained customer support team that provides extensive after-sales service for its customers' needs, including parts and repair services for centralised and decentralised HVAC systems.

Being a pioneer and leader in the air quality control business, McQuay International is at the forefront of the drive to apply ozone safe refrigerants into HVAC systems. For example, McQuay was the first company in the world to discontinue the marketing of CFC based air-conditioning products. Today, the company's entire range of centrifugal chillers, both new and existing, are compatible with HFC-134a, an ozone safe refrigerant.



McQuay International also continues its research to develop systems that are frugal in their consumption of energy. It is a policy of practising what we preach -- air quality control

EXHIBIT 6.8 (D)
OYL INDUSTRIES
1993 ANNUAL REPORT
PAGE: 9

6.4.4 Environment

The degree of involvement by companies in activities concerned with the physical environment is very limited. The amount of disclosure on environment issues is low. Only 22 out of 72 companies disclosing social information disclosed on the environment. This amounts to only 30.6 per cent of all the companies that disclose social information with an average of 4.4 sentences. Environment was classified under three sub categories: pollution, waste, and general environment. General environment includes information on landscaping, general statement of what the company will do, environmental education etc. Environmental disclosure is not popular among Malaysian owned companies. Pollution and waste information was the most common theme of disclosure by Malaysian companies. European companies reported mainly on general physical environment issues (see Table 6.18).

Table 6.18: Sub-Categories of Environment Disclosure by Country of Ownership

Ownership	Total		Pollution		Waste		General	
	No	%	No	%	No	%	No	%
Malaysia	19	31.7	16	84.2	6	31.6	5	26.3
Europe	2	33.3	2	100	-	-	1	50
USA	1	33.3	1	100	-	-	-	-
Others	-	-	-	-	-	-	-	-
Total	**22**	**30.6**	**19**	**86.4**	**6**	**27.3**	**6**	**27.3**

The maximum number of sentences disclosed is twenty two. The plantation industry disclosed the most on the environment with 80 per cent of companies disclosing, while property comes next with 67 per cent (see Table 6.19). The plantation industry's environmental disclosures mainly centred on open air burning while the property sectors disclosed more on the beautifying or greening the areas around developed properties. Trading and consumer industries only have minimal disclosure while the financial industry has no disclosure at all. Surprisingly, the manufacturing and construction industries have disclosure rates of only 33 per cent and 25 per cent respectively on the environment. These two industries could be expected to disclose more since they are concerned with issues of emission and pollution, while construction industry has a direct relation to environmental impact assessment.

Table 6.19: Sub-Categories of Environment Disclosure by Industry

Industry	Total disclosure		Pollution		Waste		General Environment	
	No	%	No	%	No	%	No	%
Trading	5	25	10	60	2	40	15	40
Finance	0	0	0	0	0	0	0	0
Properties	4	66.7	4	100	0	0	0	0
Plantation	4	80	4	100	1	25	1	25
Consumer	3	25	2	66.7	1	33.3	2	66.7
Manufacturing	5	33.3	5	100	2	40	1	20
Construction	1	25	1	100	0	0	0	0
Total	22	30.6	19	86.4	6	27.3	6	27.3

6.4.4a Disclosure Practice

The amount of disclosure made by companies in this area ranges from a few sentences in the Chairman's statement to an entire page in the operational review. Nestle, in particular, devoted an entire page on its commitment to the environment (see Exhibit 6.9).

THE NESTLÉ COMMITMENT TO THE ENVIRONMENT

Nestlé respects the environment and is committed to environmentally sound business practices throughout the world, thus taking into account the need to preserve natural resources and save energy. This commitment is put into practice by considering local legal requirements as a minimum standard. If these do not exist, our internal rules, adjusted to local conditions, apply. Research and Development and new investments include an evaluation to ensure environmentally appropriate products, packaging and processes. Management and personnel within the Nestlé organisation worldwide are encouraged to help resolve environmental problems within their own sphere of influence.

KOMITMEN NESTLÉ TERHADAP ALAM SEKITAR

Nestlé menghargai keadaan alam sekitar yang sempurna dan terikat kepada amalan perniagaan yang sihat dari segi penjagaan alam sekitar di seluruh dunia. Oleh yang demikian, Nestlé menyedari betapa perlunya memelihara sumber alam semula jadi dan menjimatkan tenaga. Kewajipan ini diamali dengan mengambilkira peraturan undang-undang tempatan sebagai piawaian yang minima. Sekiranya peraturan itu tidak wujud, peraturan dalaman kami yang diubahsuaikan dengan keadaan tempatan dilaksanakan. Di bidang Penyelidikan dan Pembangunan serta pelaburan baru; kami juga melakukan penilaian untuk menentukan supaya barangan, pembungkusan dan pemerosesan kami bersesuaian dengan keadaan alam sekitar. Pihak pengurusan dan kakitangan dalam pertubuhan Nestlé seluruh dunia digalakkan membantu menyelesaikan masalah alam sekitar menerusi pengaruh masing-masing.

EXHIBIT 6.9
NESTLE BERHAD
1993 ANNUAL REPORT
PAGE: 1

As might be expected, information was often industry specific. Thus, disclosures from manufacturing, power supply and oil and gas companies would usually include information on reducing pollution levels, waste, discharges and energy conservation. A good example is from the Chemical Company of Malaysia which reported on setting a zero target for effluent, transportation of hazardous chemicals and training of staff to handle such chemicals.

> *"The Group continues to give top priority to Safety, Health and the environment. Some of the actions taken were:*
>
> - *designing new Paint plant at Nilai to treat and recycle all its effluent to achieve a target of zero discharge;*
> - *formulating all paints for the decorative sector to exclude lead and mercury*
> - *providing extensive training to our contractors and drivers who are involved in the transport of hazardous chemicals;*
> - *providing extensive training to our employees to improve the working environment so as to minimise hazards;*
> - *setting up a joint-venture company to provide environmental improvement technology and environmental engineering services" (CCM).*

As noted earlier, property developers and construction companies reported on landscaping and participating in 'Green campaigns'. Sime UEP, for example, reported on the nation-wide environmental campaign 'Green Campaign and Landscaping'.

> *"Sime UEP was specially selected to launch and spearhead the nation-wide environment-related campaign organised by Ministry of Science. Technology and Environment. Various competitions and 'green' activities were held for residents and schools. A prize presentation was held on 21st October in conjunction with the launching of Hari Alam Sekitar Malaysia 1993 and was officiated by the Minister, Dato' Law Hieng Ding (Sime) Dairy.*
>
> *The green campaign is an ongoing community project that is supported well by the residents. Some of the activities this financial year included the one month "Kempen Hijau", a project undertaken with the Jabatan Alam Sekitar,*

Majlis Daerah Petaling and Majlis Perbandaran Petaling Jaya. Activities like the contest for Beautiful Garden, Green Photography, Best Green Theme Concert and Greenest School were held for residents and schools to generate green awareness.

To implement the "Landscape as Landmarks" concept, Sime UEP is landscaping the township in a conscious and systematic way. Main roads and intersections will be landscaped as landmarks for residents and visitors to help them identify their location and get their bearings. Greenery will be emphasised in the town centre to create a refreshing character for the town." (SIME).

6.5 RELATIONSHIP BETWEEN SOCIAL DISCLOSURE AND COMPANY CHARACTERISTICS

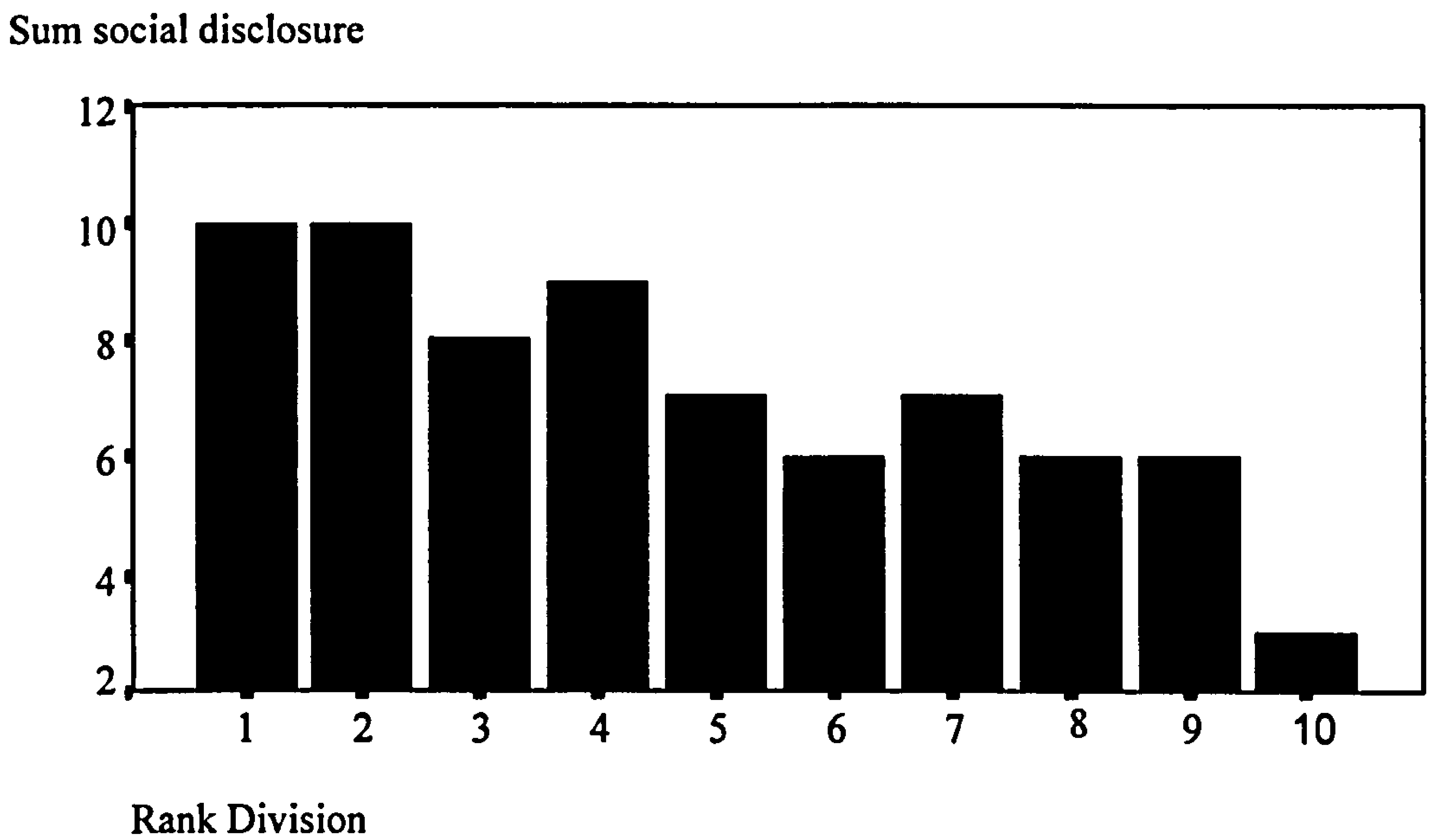
So far, observation has been on the current state of play of corporate social reporting in Malaysia. To probe further, attention is focussed to the second part of the chapter, the statistical analysis. This section will initially develop the hypotheses followed by the testing of the hypotheses identified. Finally the findings will be presented to establish if there is any association or correlation of social disclosure with each corporate characteristics identified; company size, profitability, industry membership and country of ownership.

6.5.1 Company Size

Size of a company is a dominant factor in corporate social reporting. The relationship between company size and social disclosure has been one of the most frequently tested by researchers (see Spicer, 1978; Watts and Zimmerman, 1978; Trotman and Bradley, 1981; Cowen et al., 1987; Belkaoui and Karpik, 1989; Patten, 1991, 1992; Hackston and Milne, 1996). In general, previous studies suggested a positive relationship. The relationship, as explained by Watts and Zimmerman (1978), is because political costs reduce management wealth, and since the magnitude of political costs is highly dependent on company size, companies attempt to reduce such costs by social disclosure. However, Roberts (1992) found no relationship in a US sample.

Initial investigation on the Malaysian sample reveals that the number of companies disclosing social information increases with company size. The total sample was initially ranked according to market capitalisation. The sample was then divided into 10 equal divisions. The summary of disclosure for each division can be seen in Chart 6.5. From Chart 6.5 we can see that the number of companies disclosing social information decreases as the size of the company decreases.

Chart 6.5: Number of Disclosing Companies by Division



Almost all prior research has tended to report on the incidence of companies disclosing social information. Apart from testing for the number of incidences, similar to Hackston and Milne (1996) and Trotman and Bradley (1981), this study goes a step further by investigating the relationship between amount of disclosure and company size.

6.5.1a Hypothesis Statement

- **Hypothesis 1 (HA 1)** : Companies which provide social disclosure are larger in size than those who do not.

- **Hypothesis 2 (HA 2)** : There is a positive association between size of a company and the amount of social information disclosed.

6.5.2b Results and Summary

HA1 attempts to investigate the relationship between the number of companies disclosing social information and company size. Using a Mann-Whitney U Test[2] (see Table 6.20) Nat Log market capitalisation shows that the probability is less than 0.05 (0.017). There is a significant difference, which means that the bigger the company, the higher will be the probability that the company will disclose social information. This finding confirms those of earlier Malaysian studies by Teoh and Thong (1984) and Andrew et al. (1989). The finding is also similar to those of the Spicer (1978), Trotman and Bradley (1981), Cowen et al. (1991), Belkaoui and Karpik (1989), and Patten (1991, 1992) studies that there is a relation between corporate social disclosure and company size. Alternatively, a test was also conducted for natural log of total assets. A significant difference was also found for the natural log of total asset with a p value of 0.0012.

Table 6.20: Mann-Whitney Test Results

	U Value	Z Value	2-Tail (p)
Nat Log Mkt Cap	440.5	846.5	0.015
Nat Log Tot Asset	587.0	3.2320	0.0012
Nat Log Ret on Asset	967.0	1455.0	0.7529
Nat Log Ret on Equity	975.0	1381.0	0.8000

HA2 predicts that the amount of corporate social disclosure is an increasing function of firm size. Rejection of this hypothesis will imply that as size increases, amount of disclosure will not increase. A Pearson Correlation Test performed shows that (see Table 6.21) company size attains statistical significance and has a positive sign as predicted. Comparison between natural log market capitalisation and amount of

[2] The statistical tests employed (parametric and non parametric) are dependent on the nature of the data. Mann-Whitney U Test for example, was employed to compare two sets of data obtained from independent groups, while a Chi-Square Test was used with nominal data to compare the observed frequency with the expected frequency. For a fuller explanation, see Appendix 5

disclosure shows a coefficient value of 0.462 and a probability value of 0.000. The finding suggests, in support of HA2, that corporate social disclosure is indeed an increasing function of corporate size. The result is consistent with studies made by Spicer (1978), Trotman and Bradley (1981), Cowen et al. (1991), Belkaoui and Karpik (1989), Patten (1991, 1992) and Hackston and Milne (1996) that there is a relationship between company size and social disclosure. Cowen et al., (1991), for example, believed that a relation exists because larger companies are highly visible, make a greater impact on society, and have more shareholders who might be concerned with social programmes undertaken by the company.

The model was re-estimated by using natural log of total assets as a proxy for size to account for the possibility that the result obtained regarding size is a function of the definition used. The result, however, remained unchanged. It is clear that all size measure are highly positively correlated with total amount of social disclosure.

The above tests suggest that there is a high degree of relationship between company size and numbers of companies disclosing and the amount they are disclosing. The larger the company, the greater the incidence of disclosure and the larger the amount of disclosure.

Table 6.21: Table of Descriptive Statistics and Correlations

	Nat log market capitali-sation	**Nat log total asset**	**Nat log ROA**	**Nat log ROE**	**Nat log total dis-closure**
Mean	7.007	6.851	-0.319	0.0631	1.417
Std deviation	1.134	1.300	0.499	0.409	1.310
Nat log market capitalisation	1.000 0.000	0.675 0.000	-0.284 0.004	-0.321 0.001	0.462 0.000*
Nat log total asset		1.000 0.000	-0.638 0.000	-0.335 0.001	0.351 0.000*
Nat log ROA			1.000 0.000	0.786 0.000	-0.025 0.800
Nat log ROE				1.000 0.000	-0.027 0.787
Nat log total disclosure					1.000 0.000

Table 6.22: Results of Chi-Square Test

	Value	Significance	Minimum Expectancy
Industries	3.614	0.164	8.4
Country of Ownership	0.9096	0.340	5.3

6.6 PROFITABILITY

It is argued that social performance cannot be completely dissociated from that of economic performance (see Bowman and Haire, 1976; Abbott and Monsen, 1979). The relationship between economic performance and the firm's extent of social disclosure is predicted on the assumption that the higher the firm's profit, the more social disclosure will be found (Abbott and Monsen, 1979). Prior studies on the profitability-corporate social disclosure relationship have produced mixed results. Bowman and Haire (1976), Preston (1978) and Herremans et al. (1993) all support a profitability-social disclosure relationship. Davey (1982), Cowen et al, (1987), Roberts (1992) and Hackston and Milne (1996) on the other hand failed to establish a relationship.

The Malaysian economy has been on a steady rise for the past five years. Companies in Malaysia have been instrumental in contributing towards that growth. With companies enjoying steady growth, one would expect that they would be more concerned about social issues and will disclose their activities. This study therefore hypotheses that there will be a positive relationship between profitability and corporate social disclosure.

6.6.1 Hypothesis Statement

- **Hypothesis 3 (HA3):** Companies who provide social disclosure have higher profit than those which do not disclose social information.

- **Hypothesis 4 (HA4):** There is a positive association between profitability and amount of corporate social disclosure.

6.6.2 Result and Summary

HA3 attempts to find the relationship between the number of companies disclosing social information and company performance. As a measure of performance, the natural log of return on assets (ROA) was employed. Using a Mann-Whitney U Test, the probability or the p value for ROA is more than 0.05 (0.7529) (see Table 6.20). We have to reject the hypothesis and conclude that the probability of social disclosure does not increase with increased profits. To confirm the result, we also conducted a test on Nat log return on equity as an alternative to profit. The result is similar. Studies by Cowen et al (1987), Roberts (1992) also show that there is no profitability-corporate social disclosure relationship.

HA4 predicts a statistically significant positive relationship between the amount of social disclosure and profitability. Employing the Pearson Correlation Test, Table 6.21 shows that return on asset does not attain statistical significance ($p = 0.800$). This finding fails to support HA4. The model was re-estimated using return on equity as an alternate proxy for profits. The result remained unchanged. Therefore, profitability is not significantly associated with social disclosure. These findings are consistent with Cowen et al. (1987), Roberts (1992) and Hackston and Milne (1996).

The voluntary disclosure hypothesis also assumes that if companies disclose information, they do so truthfully. While there is no evidence to suggest that firms in the sample are truthful about their social disclosure, the statistical test performed found a general lack of correlation between social disclosure and company performance.

6.7 INDUSTRY

The nature of the industry is another major characteristics which may influence social disclosure. Cowen et al., (1987) for example believed that certain industries are expected to disclose more social information because of greater governmental pressure while others believe that industry membership influences political visibility and that social information is employed to ward off undue pressure and criticism from social activists (Patten, 1991; Hackston and Milne, 1996).

Pressure groups such as Sahabat Alam Malaysia, Consumer associations, Resident groups, etc., are on the rise in Malaysia (see Chapter Three). Their presence and actions are directed towards pressurising corporations to be socially responsible and accountable for their actions. These increasing domestic pressure could prompt certain industries to disclose social information. For these reasons we will investigate if certain industries do respond to these pressures .

6.7.1 Hypothesis Statement

- **Hypothesis 5 (HA5):** Corporate social disclosure varies among primary industries.
- **Hypothesis 6 (HA6):** Amount of social disclosure varies among primary industries.

6.7.2 Result and Summary

Hypothesis 5 states that corporate social disclosure varies among primary industries. Table 6.22 presented the Chi-square test values, minimum expectancy and its significance. The Pearson Chi-square result reveals that industry has a significance of 0.164 therefore, hypothesis 5 has to be rejected. This researcher can safely conclude that the Chi-Square test indicates that there is no significant association between corporate social disclosure and industry. This finding is similar to that of Cowen et al. (1987).

HA6, assumes that there is a relation between amount of disclosure and different industries. Since industries are distinguished by three groups, Kruskal-Wallis tests would be most appropriate to test this hypothesis. The p value generated from the test amounts to 0.215 which indicates that there is no significance difference between amount of disclosure and different industries. HA6 is rejected.

The evidence presented in this study suggests that major firms in environmentally sensitive industries are not competing to match one another in providing comparable social disclosures in their annual reports. Since there has been a lot of media coverage in past few years (particularly, for example, in the construction industry), the question of no major problems to report does not arise. Although contrary to what one might expect under the voluntary disclosure hypothesis, this outcome is not surprising. Companies are not affected by the pressures or choose to ignore them.

6.8 COUNTRY OF OWNERSHIP

The relationship between social disclosure and country of major ownership has never been statistically tested. Research in this area is still limited. Among the few studies available, Guthrie and Parker (1990), provided a comparative analysis of social disclosure practices in the UK, USA and Australia and discovered that different countries disclose different levels of social information. Gray et al. (1995) suggest that country of ownership and reporting country do appear to be associated due to regulation or because the reporting culture demands it. Teoh and Thong (1984) on the other hand found no significant difference between the amount of social disclosure and country of ultimate ownership. Malaysia has a number of foreign owned companies from Europe, USA, Japan etc. Since these foreign owned companies are from developed countries, one would expect that they will disclose more social information as would their parent companies. It is therefore hypothesised that corporate social disclosure will vary among country of ownership.

6.8.1 Hypotheses Statement

- **Hypothesis 7. (HA7):** Corporate social disclosure varies among country of ownership.
- **Hypothesis 8 (HA8):** Amount of corporate social disclose varies among countries of ultimate ownership.

6.8.2 Result and Summary

Hypothesis 7 states that corporate social disclosure varies according to country of ownership. Results from Table 6.22 above indicated that the Pearson Chi-Square has a significance of 0.340 which means that there is no association between corporate social disclosure and country of ultimate ownership. HA 7 is rejected. This finding compares favourably with Gray et al.'s (1995) suggestion. Since corporate social disclosure is not mandated by regulation and the reporting culture does not demand it, company ownership and reporting country is not associated.

HA8 assumes that the amount of disclosure varies between country of ownership. Since ownership data is on nominal scale and the variable only consists of two groups, the Mann-Whitney test is the most appropriate tool for statistical analysis. The p value derived from the test is 0.250 which means that there is no significance relation between country of ownership and amount of disclosure. Hypothesis 8 is therefore rejected.

The statistical results clearly indicate that there is a low degree of correlation between disclosure and country of major ownership. These findings concur with Theo and Thong's (1984) that there was little relationship between disclosure and country of ownership. These findings also support Gray et al.'s (1995) suggestion that country of ownership and reporting country will be associated with social disclosure only if they are mandated or the reporting culture demands it. Corporate social disclosure is not mandatory in Malaysia. Even though international companies are well aware of social disclosure practices in their home country, their lack of disclosures may indicate that there are no pressures for them to disclose.

6.9 MULTIPLE REGRESSION

To examine the multiple effect of the independent variables on the amount of social disclosure, a multiple regression was performed. The functional relationship between total amount of social disclosure and the corporate characteristic explanatory variables is as follows:

$$TASD = b0 + b1\ SIZE + b2\ PRO + b3\ (N1) + b4\ (N2) + b5\ (N3)$$
$$+ b6\ CUO + E$$

where:

TASD	= Total amount of social disclosure measured by number of sentences
b0	= Intercept
b1 to b 6	= Coefficient of slope parameters
SIZE	= Corporate size (natural logarithm of market capitalisation)
PRO	= Profitability (natural logarithm of net profit before tax over total asset).
N1	= Industry group 1
N2	= Industry group 2
N3	= Industry group 3
CUO	= Country of ultimate ownership (dummy variable with 1 = Local owned companies, 0 = foreign owned companies).
E	= Stochastic component

Patten (1991) and Hackston and Milne (1996) also used a similar equation in identifying the relationship between amount of social disclosure and corporate characteristics. There are, however, two differences in approach. One, their equation did not include country of ultimate ownership and two, industry classification is divided into high and low profile companies.

The regression results are shown in Table 6.23 with a 0.05 level of significance. From the table, only company size is a significant variable with a value of 0.000, while profitability, industry and country of ownership are not. Apart from size, Patten, (1991) and Hackston and Milne (1996) both found industry to be a significant variable. This model, however, only explains 19 per cent (Adjusted R2 = 0.1996) of the variation in the Malaysian sample as compared to Patten (1991) who reports 25.6 per cent while Hackston and Milne (1996) a staggering 46.7 per cent.

Various runs (see Tables 6.24 and 6.26) were also carried out for different measures of profitability (Nat Log ROE). Consistent with the first finding, profitability does not approach significance. Substituting size of market capitalisation for revenue, makes little difference to the overall regression result. Comparison of results with other studies is not possible except with Hackston and Milne (1996) which makes this study of particular significance.

Table 6.23

* * * *   M U L T I P L E   R E G R E S S I O N   * * * *

Equation Number 1   Dependent Variable..   TOTALZ

Descriptive Statistics are printed on Page   1

Block Number 1. Method: Enter
CAP1   ROA1   X3   X2   X1   OWSHIP3

Variable(s) Entered on Step Number
1..   OWSHIP3   domestic ownership
2..   X3   indusrty
3..   CAP1
4..   ROA1
5..   X2   industry

Multiple R	.48993
R Square	.24003
Adjusted R Square	.19961
Standard Error	1.17246

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	5	40.81267	8.16253
Residual	94	129.21804	1.37466

F = 5.93786   Signif F = .0001

------------------ Variables in the Equation ------------------

Variable	B	SE B	95% Confdnce	Intrvl B	Beta
CAP1	.554306	.110902	.334108	.774504	.479762
ROA1	.439391	.270753	-.098195	.976977	.167486
X3	-.081333	.308659	-.694183	.531518	-.028583
X2	-.284112	.301348	-.882446	.314223	-.103214
OWSHIP3	.259150	.328339	-.392774	.911074	.077966
(Constant)	-2.415312	.862180	-4.127189	-.703434	

----------- in -----------

Variable	T	Sig T
CAP1	4.998	.0000
ROA1	1.623	.1080
X3	-.264	.7927
X2	-.943	.3482
OWSHIP3	.789	.4319
(Constant)	-2.801	.0062

Table 6.24

```
* * * *   M U L T I P L E   R E G R E S S I O N   * * * *

Listwise Deletion of Missing Data

Equation Number 1    Dependent Variable..   TOTALZ

Block Number  1.  Method:  Enter
   X1        X2        X3        OWSHIP3  CAP1     ROE1


Variable(s) Entered on Step Number
   1..     ROE1       Log Return on Equity
   2..     X3         indusrty
   3..     OWSHIP3    domestic ownership
   4..     CAP1
   5..     X2         industry


Multiple R           .49095
R Square             .24104
Adjusted R Square    .20066
Standard Error      1.17168

Analysis of Variance
                    DF      Sum of Squares      Mean Square
Regression           5           40.98336          8.19667
Residual            94          129.04735          1.37284

F =       5.97058       Signif F =  .0001


------------------ Variables in the Equation ------------------

Variable              B        SE B        Beta          T  Sig T

X2            -.204811     .294288    -.074405      -.696  .4882
X3             .047443     .307012     .016673       .155  .8775
OWSHIP3        .208800     .319080     .062818       .654  .5145
CAP1           .575953     .113915     .498498      5.056  .0000
ROE1           .526506     .316836     .164307      1.662  .0999
(Constant)   -2.765092     .912545                 -3.030  .0032


------------- Variables not in the Equation -------------

Variable     Beta In  Partial  Min Toler         T  Sig T

X1              .        .        .000000        .     .


End Block Number   1   Tolerance = 1.00E-04 Limits reached.
```

Table 6.25

* * * * M U L T I P L E   R E G R E S S I O N * * * *

Listwise Deletion of Missing Data

Equation Number 1   Dependent Variable..   TOTALZ

Block Number 1. Method: Enter
X1   X2   X3   OWSHIP3   REV1   ROA1

Variable(s) Entered on Step Number
1.. ROA1
2.. X3   indusrty
3.. REV1
4.. OWSHIP3   domestic ownership
5.. X2   industry

Multiple R	.44207
R Square	.19542
Adjusted R Square	.15263
Standard Error	1.20638

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	5	33.22822	6.64564
Residual	94	136.80249	1.45535

F =   4.56637   Signif F = .0009

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
X2	-.161651	.317319	-.058725	-.509	.6116
X3	-.006927	.323598	-.002435	-.021	.9830
OWSHIP3	.153776	.339609	.046264	.453	.6517
REV1	.551162	.128542	.441715	4.288	.0000
ROA1	-.337771	.298663	-.128751	-1.131	.2610
(Constant)	-2.129357	.924517		-2.303	.0235

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
X1	.	.	.000000	.	.

End Block Number 1   Tolerance = 1.00E-04 Limits reached.

Table 6.26

* * * * M U L T I P L E   R E G R E S S I O N * * * *

Listwise Deletion of Missing Data

Equation Number 1   Dependent Variable..   TOTALZ

Block Number 1. Method: Enter
X1   X2   X3   OWSHIP3   ROE1   REV1

Variable(s) Entered on Step Number

1..	REV1	
2..	OWSHIP3	domestic ownership
3..	X2	industry
4..	X3	indusrty
5..	ROE1	Log Return on Equity

Multiple R	.47260
R Square	.22335
Adjusted R Square	.18204
Standard Error	1.18526

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	5	37.97617	7.59523
Residual	94	132.05454	1.40484

F = 5.40649   Signif F = .0002

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
X2	-.143792	.300780	-.052238	-.478	.6337
X3	-.069644	.305970	-.024476	-.228	.8204
OWSHIP3	.103958	.324083	.031276	.321	.7491
ROE1	-.758103	.349511	-.236581	-2.169	.0326
REV1	.631038	.132040	.505730	4.779	.0000
(Constant)	-2.409386	.890542		-2.706	.0081

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
X1	.	.	.000000	.	.

End Block Number 1   Tolerance = 1.00E-04 Limits reached.

6.10 CONCLUSION

This study has attempted to measure and evaluate voluntary CSD made by firms in their annual report in order to provide evidence of the relationship between certain corporation characteristics and CSD. Content analysis was used to measure the extent of disclosure from 100 companies.

Only corporate size appears to have a significant impact upon total disclosure, whereas profitability, industry group and country of ownership seem to have no significant influence on total disclosure.

The findings of this study are subject to several limitations. While extensive efforts were made to develop accurate proxies for corporate social disclosures, data constraints may limit the construct validity of the selected variables. Given the exceedingly complex nature of the business environment, there are inherent limits in the ability of empirical research to capture all the dimensions that relate to corporate social disclosure.

It must also be borne in mind that all conclusions drawn about corporate responsibility in this study relate to the amount of disclosure, not necessarily to the level of corporation social activity. This is an important distinction. A firm may be highly involved in social responsibility actions but may choose not to disclose such actions in the annual report. Conversely, some firms may have little concern with social welfare but may make numerous disclosures of relatively trivial activities to enhance their corporation image. Corporate social disclosure might also be manipulated by skilful public relations aimed at securing a good reputation that is not warranted by the reality of the company's public behaviour.

Finally, the empirical tests were performed on a particular sample of firms and focussed on disclosure for one year only, 1993. Therefore, the study's findings cannot be assumed to extend beyond these types of firms or to different time periods.

CHAPTER SEVEN

INTERVIEWS

7.1 INTRODUCTION

Chapter six attempted to establish the current 'state of the art' of corporate social reporting in Malaysia via a content analysis of the annual reports of 100 companies. An attempt was also made to provide evidence of the relationship between certain corporation characteristics and social disclosure. Only corporate size appears to have a significant impact upon total disclosure, whereas profitability, industry group and country of ownership seem to have no significant influence. Human resource is the most favourite theme reported by companies followed by community disclosure.

In addition to establishing the current state of the art of corporate social reporting, a further major aim of this study is to investigate the driving forces behind CSR and, in particular, to explore the perceptions (i.e. opinions on the current state of play and more importantly the future prospects for the development of CSR) of two actors in the exchange of social information between companies and capital markets - the 'preparers' and financial analysts. Whilst the importance of user groups other than capital providers in the development of social reporting is acknowledged it is felt that at this stage in the development of the Malaysian economy, financial analysts are likely to have more clearly articulated information needs, particularly as regards 'accounting based' information. Furthermore, capital markets clearly have an important role to play in directing investment towards socially responsible corporate activities (see Chapter Three). To achieve this aim of the study a programme of personal interviews with preparers of CSR and the presumed key user group was carried out.

Three groups of respondents were identified (see Chapter Five). Financial Directors of disclosing companies and Financial Directors of non-disclosing companies were selected as the first and second group. The third group is the financial analysts. In general, the majority of financial directors in the first group approached agreed to help in the interview study. However, the second and third groups were somewhat reluctant to participate for various reasons (see Chapter Five).

This chapter is divided into three sections. The first explains the interviewing process which apart from identifying and selecting the choice of participants and outlining the time taken for each interview also determines the overall view of the respondents on corporate social reporting. The second section deals with the key issues of the thesis such as why are the companies disclosing social information, what are the key disclosure areas, the reasons for their importance, who the major audiences are and the future prospects for corporate social reporting in Malaysia. The third and last section presents a discussion where the theoretical framework developed earlier is brought to bear to explain Malaysian social disclosure practice.

7.2 THE INTERVIEWING PROCESS

Fourteen financial directors from the first group participated in the interview. The amount of time for each interview varied from one director to another (see Table 7.1). The total amount of time taken from this group is fourteen hours and seven minutes with an average of one hour per interview.

The number of responses from the second group is limited to seven companies. However, this researcher manages to include one firm from each industry sector. The average time taken for the interview is less than the first group being about forty nine minutes (see Table 7.2).

Most of the financial analysts from the securities firms contacted turned down the request for an interview on the grounds of being 'too busy'. Only three out of ten analysts contacted agreed to be interviewed. Since most of the original group of financial analysts contacted turned down the interview, one analyst from a bond credit rating agency and one from a trust fund company were selected to participate in order to make the total respondents interviewed five. The average time per interview is about one hour (see Table 7.3).

Table 7.1: Group A - Companies Disclosing Social Information

	Company Name	Industry	Country of Ownership	Market Capitalization**	Duration of Interview
1.	Communication Berhad*	Trading	Malaysia	High	56 min
2	Malaysian Airline System	Trading	Malaysia	High	1 hr 15 min
3.	Bank A Berhad*	Finance	Malaysia	High	45 min
4	Bank Islam Malaysia Berhad	Finance	Malaysia	Low	1 hr 10 min
5.	Sime UEP Berhad	Properties	Malaysia	Low	1 hr 20 min
6	Land and General	Properties	Malaysia	High	1 hr 00 min
7.	Golden Hope Plantation	Plantation	Malaysia	High	1 hr 05 min
8	Guthrie Berhad	Plantation	Malaysia	High	58 min
9.	Consumer Berhad*	Consumer	Europe	High	40 min
10.	Automotive Bhd*	Consumer	Malaysia	High	1 hr 10 min
11.	Oxygen Berhad*	Manufacturing	Malaysia	Low	1 hr 03 min
12.	Shell Refining Bhd	Manufacturing	Europe	High	50 min
13.	Construction A*	Construction	Malaysia	Low	1 hr 00 min
14.	Construction B*	Construction	Malaysia	Low	45 min
TOTAL					**14 hours 7 min**

Table 7.2: Group B - Companies Not Disclosing Social Information

	Company Name	Industry	Country of Ownership	Market Capitalization**	Duration of Interview
1.	Shipping Corp*	Trading	Malaysia	High	32 min
2	Pacific Bank	Finance	Malaysia	Low	35 min
3.	Consolidated Plantation	Plantation	Malaysia	High	1 hr 05 min
4	Properties A*	Properties	Malaysia	Low	37 min
5.	Cigarette A*	Consumer	Europe	High	45 min
6	Cement Berhad	Manufacturing	Europe	High	50 min
7.	Construction C*	Construction	Malaysia	High	36 min
TOTAL					**6 hours 40 min**

* Companies concerned requested confidentiality.

** Initial ranking was based on market capitalisation. To preserve confidentiality, companies rated 1-50 in terms of market capitalisation are marked 'high', below 50 - 'low'.

Table 7.3: Group C - Financial Analysts

	Company Name	Type	Duration of Interview
1	Rating Agency, Malaysia.	Bond Rating Agency	1 hr 5 mins
2	Bank Islam Research & Training	Trust Fund	1 hr 15 mins
3	Capital Corporation	Securities	55 mins
4	Mohaini Securities	Securities	57 mins
5	Sarawak Securities	Securities	45 mins
TOTAL			**4 hours 57 mins**

7.2.1 Overall View

Initially, financial directors and financial analysts were asked whether they had come across the term social accounting or corporate social disclosure and what their personal opinions were about the usefulness of corporate social disclosure (this issue was raised and developed later in the interview and is addressed further later in the chapter). All except one from the first group (the disclosers) had come across the term social accounting and corporate social disclosure. Most (seventy percent) of them personally believe that apart from the objective of making profit, a firm also has a duty to be socially responsible to the public. Disclosing social information informs the shareholders, the employees and the wider public of the business's activities in performing their social roles: in other words - accountability. The financial director of Construction A for example stated that;

> *"Companies need to disclose this information to make the public know what we are doing apart from making profit. Companies nowadays are socially responsible. Not like ten years ago where the aim of a company is just to make profit and nothing else. They just want to make their shareholders happy."*

Similarly, another director from Sime UEP, a property company said,

> *"Social information should be disclosed to make sure that not only the shareholders but also the public know that the company is actively participating in development programs for the community ... to create awareness ... to instil values to the public."*

The only director in the first group who had not come across social accounting and corporate social disclosure (Bank Islam Malaysia Berhad), believed that social information should not be included in the annual report which implied that he presently had has no role in social information being disclosed. He reasons that;

> *"I belong to the old generation of accountants. I feel that for objectivity purposes we should not get involved with subject matter which is very subjective for example environmental protection ... Social information is a passing trend just like inflation or price level accounting. We will eventually end up with historical cost. Whatever we want to reflect in the financial statement should be factual rather than information that is subject to a lot of interpretation."*

In the second group(non-disclosers), as expected, more than half of the respondents had not heard of social accounting or corporate social disclosure (four out of seven). However, after explaining the meaning of the term, all, except one, expressed a belief that corporate social disclosure is essential for company development and as a demonstration of their corporate behaviour. Pacific Bank expressed the view;

> *"Yes, I think there is a need for that (social disclosure). Corporations are supposed to be socially responsible citizens. In the pursuit of business, companies ought to have consideration for others."*

A shipping company director also shares this view and added:

> *"Personally, I think we should not forget the customers, public and the environment that have helped the company to survive and accumulate wealth. So in sharing this wealth we need to participate in social activities and inevitably disclose them."*

However, Properties A Berhad has a different opinion. Its financial director responded, in a similar fashion to Bank Islam Malaysia (first group) that;

"I believe that an annual report is strictly for the purpose of decision making. This information is of no value to the users, so there is no need for disclosure. The main function of an annual report is to show the financial situation of the company. We look at it that way. We define an annual report as a financial document."

All the respondents in the third group (the analysts) had come across the term social accounting and corporate social disclosure but appeared to have little in-depth knowledge of the subject area. A financial analyst from Capital Corporation stated,

"Yes, I've come across the term but do not have an in-depth knowledge. There is an increasing awareness on the part of the conglomerate. They are obliged by the accounting bodies, especially in the UK, to disclose more than the law requires. There is a trend that more and more companies are compelled to disclose."

Eighty percent of the financial analysts believed that companies should provide social information in their annual report. Sarawak Securities, for example, believes

"that social information is very useful not only to the shareholders but also the general public because companies need to inform the users of their corporate responsibility. Yes, more and more companies are disclosing social information in their annual report. Normally they would disclose information on human resources and the community. Companies need to be socially responsible. They have to participate in social events and activities. As they participate, they will disclose the information in their annual reports."

Almost all directors interviewed believed in the concept of corporate social reporting on the ground that a company's objective is not only to make profit but also to discharge accountability. In general, there is some vague indication that financial directors find social information useful. The financial analysts on the other hand strongly believe that social information has value not only to the shareholders but also to the general public.

Although it may seem odd to start with questions such as "Have you come across the term social accounting and corporate social disclosure?" and "What do you understand by the term corporate social reporting?" because of the vast array of possible responses, it succeeded in generating some discussion which proved a good starting point to proceed to the key issues of corporate social reporting such as the reasons for disclosure, key disclosure areas and future prospects.

7.3 KEY ISSUES IN CORPORATE SOCIAL REPORTING

Although numerous studies have been conducted on corporate social reporting, the key issues, particularly in the developing countries, such as why companies are disclosing/not disclosing social information, the key disclosure areas and the reasons for their importance have still not been adequately explored. This section deals with such issues. The section is divided into four parts. The first addresses the issue of why the companies are disclosing. The second deals with the key area of disclosures and their relative importance. Thirdly, we focus on the question as to who the major audiences are and, finally, we explore future prospects of corporate social reporting in Malaysia.

7.3.1 Why Disclose?

Companies are disclosing social information for many various reasons. However, they can be classified under three broad categories: pressure from the government and the market, enhancing corporate image and top management awareness.

7.3.1a Pressure from Government and Market

Considering the number of crises that have captured the limelight in recent years (see Chapter Two), it was thought that companies are disclosing social information as a result of direct pressures from certain groups or quarters. Surprisingly, the interviews suggested otherwise. All the companies interviewed said that they are not being directly pressured from shareholders, government nor any advocacy groups to disclose social information. A major communication company, Communication A, one of Malaysia's privatised companies, indicated;

> *"There is no pressure that we must disclose social information. No pressure from any sectors. Not in Malaysia. They (pressure groups) are not that active. What we have reflected here (in annual reports) is good and comprehensive enough."*

This view is supported by Land and General who said,

> *"We address issues that the people, the public and the consumers are concerned about. For example, we are also in timber and forestry, in recent years there have been a lot of awareness created (about the environment). As a company, we need to take a certain stand and inform the people what our stand is. Whatever additional information we provide is usually given because we feel that there is a need for it. No pressure from activist groups or the public. The public rarely read or analyse our report."*

Similar to the first group, there is no apparent pressure for non-disclosing companies to disclose social information from the public, activist groups, government or parent companies. They believe that action speak louder than words.

Whilst they are under no pressure from the public or the shareholders to disclose social information, the introduction of Vision 2020 in the late eighties and the Caring Society in the early nineties have influenced a number of companies in disclosing social information (eight out of fourteen disclosers) in their annual reports. It is interesting to note that this is especially true for those companies whose main shareholders are the investment arms of the government or government controlled organisations[1]. The obligation to participate more in social activities has prompted

[1] Five disclosing companies interviewed had a majority ownership belonging to the government. Permodalan National Berhad (PUNB), Amanah Saham Nasional (ASN) and Amanah Saham Bumiputra (ASB) are some of the examples of the government's investment arms.

some companies to disclose more social information. Guthrie (plantation) for example explained that:

> *"We are a public company with many shareholders. Our majority shareholder is PUNB which is a government investment arm. Therefore, automatically, we need to be socially responsible to the public. Being what we are, we have to play that role. Yes, we respond to the government policies but we are not bound to it. With the caring society policy we are obliged to do more. When you do more, you tend to disclose more."*

Automobile Berhad, another company whose ownership is controlled by the government, identified that the government caring policy has influenced the company to participate in additional activities such as taking care of the environment and the community, which are eventually reported. Its financial director said;

> *"Yes, the government has always been, and will always be, a standard that we follow. We have an obligation not only to the shareholders but also to society at large (the Stakeholders). We are one of the government's tools for developing society. Through the privatisation scheme, our job is not only to distribute wealth back to the society but also to educate society via participation in activities about the environment, caring for one another and many more. With the government's caring policy, we disclose more social information since we participate more and through our report we can inform and educate the public."*

The influence of government policy is also strong for companies whose ownership is not controlled by the government. These companies felt that they should support the government policy of a caring society to show that they do indeed care. Land and General (a property company) for example stated that:

> *"Yes, we are very in tune with our government policy. We follow very closely what the leaders want. We also want to do our part in promoting a caring society. Recently, L&G passed a special resolution to place one per cent of*

profit before tax into a fund governed by some trustees for the purpose of charitable organisation. This is one way of showing that we care and these are the things that are mooted from the top management. We want to do something. Even though other companies also do these things, we make special provision for that."

Another example of the influence of government policy on corporate social disclosure is from Construction B which stated that the policy 'opened their eyes' towards contributing more to the society;

"Yes the policy did have an effect on our disclosure. Since the introduction of the caring society, it opened our eyes to the fact that our aim is not only to make profit. We've never disclosed this information before because we've never participated in any (social) activities. With the caring policy, we participated in a lot of social activities. So we report."

Five companies stated that the government policy introduced did not trigger their social disclosure, however, it encouraged them to disclose more. Interestingly, most of these companies are foreign owned companies who stated that they had been disclosing social information long before the introduction of such policies. Oxygen Berhad for example said that:

"We have been disclosing information on social matters for quite some time now. The government's caring policy only came about a few years ago. We have been disclosing (social information) even before the policy was introduced. However, it does encourage us to participate and disclose more."

This view is also shared by a minority of non-disclosing companies. Properties A for example noted

"So far we have not been under any pressure from users of our annual report to disclose social information. (Not even the introduction of government caring policy) We are doing our part in promoting the caring society and

towards Vision 2020, but there is no pressure for us to disclose. Our company deals directly with the public. We develop properties and in doing so we try, as far as possible, to create a safe place to live and not forgetting the environment. In every township that we've developed, we observe the government regulations, environmental impact assessment, providing 'green lungs' etc. We have to provide this to make the community happy. So far we have no complaint from them."

Evidence from the interviews suggests that there is no pressure from the traditional stakeholder group (capital providers) for companies to disclose social information. This may seem odd from a stakeholder perspective considering the emerging Malaysian share market, the growth of advocacy groups and increased public awareness. However, the introduction of government policies has prompted a lot of companies to participate in social activities and disclose information on such activities which could suggest that companies are, after all, under at least indirect pressure from the government to disclose social information.

7.3.1b Enhancing Corporate Image

The capital market plays a vital role in the development of the Malaysian economy (see Chapter Two). Even though Malaysian investors are not as sophisticated as their counterparts in the Western world, they are moving towards that. Significantly, the annual report serves as a public advertising document. The annual report is taken as an opportunity to project the 'image' of the company. More than two thirds of the companies in the first group interviewed considered the annual report to be a marketing tool. Ten companies from the first group took this view. A European company, Consumer A Berhad, for example expressed the view that;

"World wide, Consumer A has been a very responsible company. We put extra effort into being socially responsible and provide products that are of the highest quality and standard ... By disclosing this information we are also able to project our image."

Land and General also stated that;

> *"Banks are the ones who normally disclose a lot of social information. I sometimes think that this is just to enhance the corporate image. The more information that you disclose to people, the better it is. We also want to project a good image. We want to disclose as much as we feel we should. It is more relevant to the banking sector as a marketing tool."*

This reason is supported by all non-disclosing companies. Consolidated Plantation believes that other companies are disclosing social information for two purposes:

1. that they spent the shareholders money on worthy causes;
2. to tell the world that they are socially responsible.

By doing these things they hope to achieve some benefit, whether tangible or intangible. Maybe just a good name. From the workers point of view - maybe this is a good company to work with. From the customers' point of view - the company is not just there to make money, we can get something back. Shareholders - money spent on these activities is not in vain. By giving this information, they could satisfy most people.

A significant number of companies (65%) also believe that corporate social disclosure is market driven. They disclose social information to enhance their corporate image aiming ultimately to catch the attention of investors. This is especially true of certain sensitive industries, for example the timber industry, and companies that are trying to capture or maintain Western markets. This view is shared by a majority of companies interviewed (eight from the first group and four from the second group). Sime UEP for example believes that;

> *"The market is a factor towards social disclosure ... if you are in an industry where they are sensitive to the type of products that you have to sell, for example, logging, there is a lot of apprehension among the Westerners that you are destroying the environment by extracting timber beyond a sustainable level. In order to provide comfort to the Westerners there may be a need to*

disclose this type of information and publicise what the company is doing, for example, replanting, reforestation, environmentally friendly techniques etc., to enable their logs to be exported to certain countries rather than the Western countries imposing a ban or block."

The financial director from Shell Refining Berhad also supported this view. He believed that certain industries are disclosing social information because they are trying to demonstrate their compliance with Western standards, conditions and values.

"Yes in some cases you would find there is a correlation in the social expenditure with the market that they want to penetrate. Some markets in the west are very particular about where we get our product from, the use of child labour or equal opportunities, and therefore as a condition to allow imports they may set a condition that certain things must be done by the company. Therefore in the annual report, these disclosures will be made. In Malaysia, timber products especially, apart from being graded must also comply with certain policies."

However, not all companies believe that market pressure is a factor in promoting social disclosure. Construction A, for example, stated that;

"No, I don't think that the amount of social reporting is market driven. Take our own company for example. We are actively involved with foreign markets. We construct not only in Malaysia but also in Indochina, Papua New Guinea etc. We only report what we do. We know that the environment is the talk of the town but we do not mention it in our annual report because there is nothing to report."

Responses from the second group also seem to favour the market as a major factor in promoting social disclosure. Construction C cited that;

".... in most cases you would find there is a correlation in the social disclosure and the market that a company wants to retain or penetrate. We all know that

the West is very concerned with the environment and what not. So in order for the products to be accepted by the Western market, local companies must comply with the market needs. Take the timber and paper products companies for example. In order for them to penetrate or maintain the Western market, they have to comply with Western standards, making sure that they sustain the environment. One way of letting the market know is by reporting it in the annual report."

This view is also supported by the financial analysts. Three out of five financial analysts believed that companies are disclosing social information for the purpose of enhancing their corporate image, as a public relation exercises, or a marketing gimmick which is aimed at attracting investors. Bank Islam Research and Training for example stated that;

"Companies are disclosing such information as a pretence of meeting social obligations so that investors will be interested in the company. Their marketing strategy could be to attract potential investors. If the government is talking about a caring society, greening the earth, employment etc., then companies will disclose this information so that the investors will be attracted to invest in the company. No doubt that the company will do all those things they disclosed such as opening new factories, creating employment, planting trees, but their priority is more on the business profit. The disclosure will therefore be to enhance the corporate image."

7.3.1c Top Management Awareness and Accountability

The awareness by, and conscience of, top management is a crucial factor in the disclosure of social information. Top management awareness is instilled in the company policy. Without their awareness and consent (all the companies interviewed stated that the final say on the content of the annual report rests with their top management) social information would not be disclosed. Significantly, **all** financial directors from the first group mentioned the fact that top management awareness and the company's policy are the main reason why they are disclosing social information. A good example is from Consumer A:

> *"Company policy has been the main reason why we are disclosing (social information). For example, recently we committed ourselves to waste water treatment and to invest in machines to burn excess coffee which cost us fifteen million ringgit. It all depends on top management awareness and the company policy. We do not get any benefit out of that personally, but being a responsible company, we do it."*

Construction B believes that it is level of awareness and consciousness of the top level management that will determine participation and disclosure in social activities.

> *"I think it is more of the directors and CEO's attitude. If they are aware or conscious about the environment and the community, then they would be disclosing. But on the other hand, they might be aware and do participate in a lot of activities but they choose not to disclose because they want to keep a low profile. Like in our case, we would rather keep a low profile and be modest. We do participate in a lot of social activities. Recently, we participated in the low cost housing scheme project organised by the government. We donated one million ringgit. Last year we participated in 'keeping our city green' campaign. You can say that we are modest. After all it is in our culture not to boast."*

Automotive Berhad believes that disclosing social information is for the purpose of discharging accountability, creating awareness and educating the public concerning the company's obligations and responsibilities.

> *"We disclose (social information) because we want to educate the public about our responsibility as well as theirs. But others who do not understand may perceive it as us trying to project or improve our corporate image. We are the biggest and the first car manufacturing company in Malaysia, we do not need to project our image. The public knows."*

Two financial analysts believed that companies are participating in social activities as part of the social obligations of companies towards the community and the discharging of accountability. Sarawak Securities explained;

> *"More and more companies are disclosing social information in their annual report. Normally they would report on the human resource and the community. Companies are accountable not only to the shareholders but also to the general public. Companies need to be socially responsible, they have to participate in social events etc. As they participate, they will disclose the information in the annual report. I think it is the philosophy of the management. As they are becoming more aware of societal needs, they will participate more. The caring society could also be another reason why companies are disclosing more. Maybe they are complying more with the government's policy to show that they care."*

7.3.1d Other Reasons for Disclosure

Other than enhancing corporate image, disclosure of social information is also for the purpose of informing the public. Bank Islam Malaysia Berhad (Finance) in particular said that:

> *"Social information is disclosed to spread Islamic teachings or 'Dakwah'. Everybody does it (promoting or enhancing the corporate image) whether intentionally or not. To a certain extent, our bank also does the same especially in the early stage of our operation. We, for example distribute pamphlets and brochures to the public to let them know the Islamic banking practices and the services that we offer. In our annual report, we disclose social information as a sort of Dakwah in the financial world which underlines our philosophy and corporate mission."*

Automotive Berhad also shared this view:

> *"Social information, we believe, should be disclosed not to enhance corporate image but to inform the public about the functions of business. We need to educate (Dakwah) them that we also have a responsibility to share our wealth. After all, doesn't Islam teach us to be caring and help one another? This teaching or 'Dakwah', in my opinion, should be practised by all Muslim companies."*

Four companies said that they disclose social information because other companies are disclosing. To keep pace with their competitors, they look into other companies annual reports in order to improve their own. Construction A, for example, said:

> *"To some extent, we do look at other companies' annual reports. We need to know what our competitors are doing. To be competitive, we need to know our competitor."*

In chapter six, one of the findings was that there is no correlation between corporate social disclosure and country of ultimate ownership. The interviews further supported this finding. Parent companies abroad apparently have no great influence over their holdings in Malaysia concerning social disclosure. All foreign owned companies interviewed stated that their parent companies are not in any way influencing or pressuring them to disclose social information. Oxygen Berhad, for example, stated that

> *"Even though our parent company are active in participating in social activities and caring for the environment and they are disclosing social information in their annual report ... we received no directive from them to disclose this information. We are independent from our parent company when it comes to reporting. For as long as we abide by the statutory regulations .... we are given a free hand."*

Lindblom's (1984) legitimacy theory framework recognises manipulation of perception by deflecting attention from contentious issues in order to manipulate the relevant public to focus on other matters. To test this assertion, financial directors were posed the question of the possibility of social information being disclosed as a camouflage for other activities or events. Only four financial directors from the first group, one from the second group and one financial analyst believed that some companies are disclosing social information as a 'cover-up' or as a camouflage for other activities. Mohaini Securities for example believes that:

> *"It is a camouflage. Genting for example, did a lot of social work but at the same time see what they have done to the environment. What we read and what we see is different. It could be that they are hiding what they have done to the environment. So we don't really bother about this other social information."*

Most financial directors rejected camouflaging as the reason for social disclosure. Since companies are disclosing social information voluntarily, they are under no pressure to disclose. They are disclosing social information honestly and without prejudice. Although some of the directors do agree that they may be disclosing to enhance their corporate image, disclosing social information to hide or distract public from negative matters is a complete NO. Sime UEP for example is of the opinion that:

> *"People cannot disclose that kind of information unless they are under some pressure, that they are obligated or mandated to do certain things they have not done. (If so) then they would go all out to disclose with a view to protecting their backside. If they are doing it out of conscience and free will, they are not under pressure from anybody to camouflage anything. I can only speak for Sime. We disclose information not to camouflage but we feel that these are things that are worthy of note."*

7.3.1e Summary

All directors interviewed said that they are not being directly pressured to disclose social information. However, the introduction of government policy has, at least indirectly, influenced many companies in Malaysia to disclose social information in their annual reports. While top management awareness and company policy are considered by all respondents as a major factor for disclosure, a majority of directors and analysts further agreed that most social information provided is a public relations exercise which could influence investors and the market. Even though most financial directors may not readily admit the pressure to disclose this information, their admission of providing information to enhance corporate image and as a public relations exercise to influence investors and the market may suggest otherwise. Having said that, we now need to know what are the key areas of disclosure that could affect investors and market.

7.3.2 Key Disclosure Areas

In Chapter Six we noted that all companies disclosing social information disclose data on the human resource. Since most companies consider their human resources as their most prized asset and strength without which the company could not exist and operate without much stress is placed upon disclosure in this area. Construction A's reply is similar to others:

> *"We concentrate more on the human resource. It is our most valuable asset so we always provide training programs. Job satisfaction (is ensured) by providing a conducive working environment and less office politicking."*

Oxygen Berhad for example noted that:;

> *"Our main asset is our employee. So we report mainly on our employees. In fact we have a very low staff turn over. We even have staff who have worked for us for twenty years ... We believe in taking care of our employees. We go all the way to make our people happy. Happy employees, apart from having a pleasant working environment, are more productive."*

Whilst the reason for companies disclosing human asset information seems to be because they are considered as the company's main asset and strength, influencing investors could be the ultimate aim. As we have noted in Chapter Six, even though employee appreciation and awards is the most popular human resource sub-category disclosed, the information presented does not seem to de directed to the employees. Most mentions were largely in the form of passing reference contained in the acknowledgement or appreciation section of the Chairman's Statement with no more than a small paragraph or a sentence or even just a phrase. This could indicate that human resource information provided is not simply to please the employees. The lack of information on employee welfare and employee share option schemes supports this view. Malaysian Airline System noted that:

> *"Financial analysts always analyse the human resource information provided, especially in term of productivity. The growth, the number of staff, the capacity of operating staff, how many passengers per member of staff are always related to the company's performance. As the business expands, the most important factor is the productivity of staff and their morale. The analysts would want to see whether MAS staff are more productive or not which will of course reduce the staff cost. To achieve this, they will look into training and staff development."*

Feedback from financial analysts confirms this view. While most analysts interviewed believe that social information, particularly information on communities, has little value, they seem to agree that information on human resources has some importance, especially information on training and development, the ability of the company to retain its key people and employee turnover. Rating Agency Malaysia for example said:

> *"Social information in general is not taken much into consideration. However, for credit rating purposes,, we do look at the human resource. We would scan through what type of programs they have for their employees etc. What is more important when the credit analysts visit the company is finding out how companies are managing on the aspect of human resources. A lot of companies have a problem retaining their employees. Employees are the most important resources of the company, therefore we do ask the company about their ability in retaining key people. If the company is able to motivate and*

retain its key people that would be a favourable factor for the company. Yes, we do look at what the company does in human resource terms. It is no good if we just see the glossy part of the annual report where they said that they are providing training, career paths etc. but when we go and see the management, we see that the key people keep on changing."

Sarawak Securities also looks for information on human resources because:

"Employees are considered as the greatest asset a company could have. This asset should be properly oiled and kept to its maximum capacity because it will decide the fate of the company. Management as well as the workers should be properly taken care of for the survival of the company."

Next to human resources, information on the community is the most popular disclosure theme (see Chapter Six). Financial directors interviewed indicated that little importance is attracted to community information. Those who do disclose said that they did so because they participated in social activities. Golden Plantation for example noted:

"In 1993, disclosure was more directed towards the human resource, however, it is not our main concern. If you were to look at our 1994 and 1995 annual reports, we did improve our annual report year in and year out. As we progress, we add more and more information. If we do participate in a lot of community activities, that is what we will report."

An interesting answer about the reason for community disclosure came from a major communication company, whose ownership is controlled by the government, which intimated that community disclosure was designed to please the politicians:

"(Community information is particularly stressed) ... to satisfy the politicians. It is part of and parcel of our company's objective. Since we are a government company, we need to be in line with the government's policy.

With the introduction of a caring policy, we have to be aware and participate in respect of our staff and the community."

For some of the stakeholders community information may not be critical. But in the eyes of the government, they are interested and want to see what the company is doing. This is one way of conveying to the government or other agencies as to what companies do.

Information on products and the environment achieves little prominence amongst disclosing companies. Those who do disclose mentioned that a reason for disclosure is to follow what their counterparts are doing. A consumer company for example noted:

"World wide, we have been a responsible company. We put extra effort into being socially responsible and provide products that are of the highest quality and standard. We need to follow our counterparts in disclosure."

Guthrie on the other hand provided environmental information because they feel that their shareholders should know that they are adhering to government regulations and standards.

"Our government are very concerned about approving projects which have an impact on the environment. The government is really stressing on the environment and corporations have to comply. For example, we are trying to establish a medium density type of plant in Kulim. Before approval is granted, we must make sure that our plant is environmentally friendly. We have to buy a lot of environmentally friendly equipment to make sure that dust is being sucked in and circulated and not allowed to fly in the air. Approval is no longer automatic. We have to make sure that our shareholders are informed that we are adhering and complying to all government regulations and standards."

7.3.2a Reluctance To Disclose

Explanations for managerial reluctance to disclose social information could be similar to those of the West considered in earlier chapters. For example, costliness, lower information value, fear of giving sensitive information to competitors, risk of confusing the readership, the fear that increased disclosure will encourage society to demand yet more of the business organisation, both in its social role and in the reports it issues, and the probable fact that management are unaccustomed to providing social information and may simply dislike having to disclose it. Even though the amount of disclosure on human resources is considerable, other areas such as community, products and environmental information are minimal because of several reasons which include particularly being modest, which is a fundamental culture value well known in the Asia-Pacific region (see Chapter Two). Sixty percent of the interviewees consider modesty as the reason for not disclosing. Construction B, for example, noted that modesty is the Eastern culture that the company practices:

> *"We do not want to beat our own drums. Action speaks louder than words. It is in our eastern culture to be modest which our company adopts. This culture should never be forgotten."*

Other reasons for not disclosing social information are to keep the annual report brief, or that it is not material enough to be disclosed in the annual report. Automotive Berhad gave their reason for not disclosing their other activities as:

> *"We participate in social activities continuously throughout the year. We do not need to report each and every one of them. Moreover, the annual report is not the right tool to do it. We need to keep our annual report brief. As it is now, we already have separate (social activity) sections."*

Cost is not really an important factor in determining social disclosure, but not to boast and being modest is. Sime UEP nicely summarises the reason for not disclosing their other activities:

"When we talk about disclosure, sometimes it is not possible to include everything in the annual report. Each year, we do things differently. So as long as the community knows what we are doing, we do not feel that we have the need to broadcast to the whole world what we are doing. Modesty is the word. Moreover, we can only write so much in the annual report. We only highlight substantial contributions. If we were to report everything, our annual report would be in several volumes."

Bank Islam on the other hand perceived their participation in social activities as Ibadah (performing good deeds for God). Since informing others about good deeds done will erase the credit, Bank Islam chooses not to disclose this information. Its financial director stated:

"Basically, we keep our annual report short and simple because of Ibadah. We consider our contributions (for example charities and zakat) as Ibadah."

Guthrie and Construction A support Bank Islam's view. Construction A, for example, expressed the view;

"Personally, I would rather not include most of the information disclosed. In Islam and our Malay culture, what good deeds we do we need not inform others. We have to be discreet. If we are not then the deeds would no longer be considered 'Ibadah', but promotion. However, being a separate entity, to be competitive, we need to disclose some of it."

As noted in Chapter Six, even though there are some companies who disclose quantitative and monetary information, disclosures are basically narrative in nature. The directors interviewed confirmed their companies primary disclosures are in narrative form, not quantitative or monetary. The reason for not disclosing quantitatively or monetarily is not only because social information is not easily quantified but also it might not serve much purpose to the readers or be in keeping with the aim of modesty and keeping a low profile. Bank Islam Berhad, for example, mentioned:

"We can disclose the amounts we spent on human resource, community etc but it might be very detailed. It might not serve much purpose to the readers. It is sufficient to inform that we provide training, staff welfare or are involved in social activities."

A property company indicated that:

"We are working toward a separate environment report, which would include some monetary information. But being modest is also the reason why we do not disclose monetarily. For example, several years ago we donated RM10 million to the low cost housing fund. Most companies which make donations highlighted the fact monetarily. In our case we only mentioned it in one sentence only. The board decided that we should not brag about it. After all, it is part of our culture not to boast. Additionally, by doing so we could avoid people knocking our door asking for donations."

7.3.2b Summary

Human resource data is the most common item of social information disclosed by companies. Most directors mentioned the importance of the human resource as a major company asset and strength as the reason for disclosure. However, the ultimate reason for disclosure seems to be to influence investors. The introduction of government policy has had a great influence on the disclosure of community information. Some companies disclose this information to please politicians. Information on products and the environment is very limited. Information on products is disclosed, if at all, because of competition whilst information on the environment is provided to inform shareholders that the company is complying with regulations. Most companies disclose information in narrative form. Quantitative information is limited simply because most directors felt that social information could not be easily quantified. Additionally, monetary information is limited not only due to practical problems but also because companies do not want to brag about their activities and wish to keep a low profile. Some companies are not disclosing social information because of religious beliefs. Specific to Islamic teachings, even though good deeds are encouraged, publicising them is not allowed. After looking at the key areas of disclosure and their importance, we now turn our attention to those the information is targeted at and the use of such information in decision making.

7.3.3 Major Audiences

The annual report has a wide range of users ranging from shareholders and employees to the local community. The information required by these users is also wide and varied. Companies therefore could not cater for every need and whim of the user. Apart from statutory information, companies disclose other information in their annual report which is targeted to certain users. Most financial directors interviewed, from disclosing and non-disclosing companies, considered their shareholders, government bodies, customers and creditors as their main readers of the annual report (see Table 7.4).

Table 7.4: Relative Importance of the Key Users of Annual Reports

	Perceived Order of Importance			
	First	Second	Third	> Third
Shareholders	76	19	5	-
Government Bodies	9	57	29	5
Financial Analysts	15	15	52	18
Customers/Creditors	-	-	5	95
Others (including: Potential Investors, General Public, Competitors, Politicians)	-	9	9	82

Significantly, although financial analysts are considered important, reports are apparently not prepared specifically for their purposes. Golden Plantation, for example, stated;

> *"Our main audience will be the shareholders and other stakeholders, for example regulatory authorities or customers. Financial analysts are important. We are conscious of them but we do not prepare reports for them. Whatever additional information we provide, we did so voluntarily without any pressure from anyone."*

Bank Islam confirms Golden Plantation's belief. Financial analysts according to Bank Islam are more interested in the current and future undertakings of the bank rather than the annual report.

> *"Shareholders and institutional investors are our major audience. They would want to know whether their investments are sound or profitable. The relevant information would be in the annual report. Next will be the correspondent bodies from the world over. This is to make sure that the bank is sound before giving any line of credit. Our potential customers are also expected to be interested in our annual report. Once we start issuing our money market papers for example, Mudharabah Certificates, Masyarakah Notes, BersamaAjil Certificates etc., the holders of these certificates/notes will be interested in our annual report to learn how much the bank is making and whether the bank is able to service the notes etc. Since we are quoted on the KLSE, definitely the financial analysts are interested in our annual report. However, they are more interested in the current information and future undertakings of the bank. The annual report provides information for the year before, it is already history, so they do not make much use of it."*

According to most financial directors (from both groups), social information provision is geared towards the needs of shareholders and investors. However, they are not the only ones who benefit from disclosure. A few respondents mentioned 'others' as being important. Although consumers generally are not highly rated, at least one company forthrightly stated their importance. Sime UEP, for example, expressed the view;

> *"We spend our shareholders money for a good cause, we would like our shareholders to be aware that we have spent the money wisely. For the consumers, they will feel happy if our intention is not just to make money. Whatever we make, we will give some back. We are a caring developer."*

This confirms the researcher's intuition that the information provided, particularly on human resources, is not really meant for the employees. Information is provided for other stakeholders. The only exception is Malaysian Airline System, which saw their employees as a major audience.

> *"Shareholders are our major audience because they are the owners. Next the employees because they make up the company. They are an asset of the company therefore you have to look after their interest in terms of conditions, work environment, developments etc. If they perform to expectation, you can see a lot more happening. Customers are next. Customers are equally as important as other stakeholders such as investors or employees. Then we will focus on the suppliers, financiers and financial analysts. Sorry to put financial analysts at the end of the list but a lot depends on what the others are doing before the analysts come in."*

7.3.3a Comments and Feedback

Only three companies consulted their users to ascertain their information needs. However, almost all companies interviewed indicated that the users of their annual reports did not ask for social information. Though they do receive feedback from users on the information disclosed in the annual report most directors believed that financial analysts especially, are more interested in the company's investment, bottom line, future plans and prospects rather than the social information disclosed.

Bankers also did not ask for social information. What they are interested in is the ability of the company to service its loans. That's all. Customers, for as long as there is no significant increase in the price (of goods) then there is no problem.

Rothmans verified that;

"There is no comment (from the users) on the report at all, not even from our shareholders. Like other companies, we do encourage shareholders to come up with suggestions. We always have a very well attended meeting every year, so our relationship with our shareholders is very good but we do not receive any comment."

7.3.3b Information Value

So does social information have any value at all to the users? Eighty six percent from the first group believe users, particularly the financial analysts, do not take social information into consideration when making decisions. Communication Berhad for example stated noted that social information provided, even though is not used by shareholders and financial analysts, may have some value to the public or the government:

"To them (financial analysts) social information is not on the priority list. They look more at the financial performance. The shareholders are interested in the future direction of the company and how much they are making and not on the social side. Social information caters for interested parties. For example, the public, government and politicians."

Most of them justify their answers by noting the frequent visits by the financial analysts to their premises. The financial analysts are only asking about financial information, not social.

"I get (visits from) between three to four analysts every month, people from investment funds, also from overseas visiting Malaysia and top Malaysian companies. They are only interested in business and the bottom line. What they are interested in is to try to form an opinion of as to how successful the financial side of the company is going to be. It seems to be taken for granted that we would be behaving in a corporately responsible way, which we are."

Some believe that the social information provided add comfort to the users. Land and General, for example, said:

> *"Our chairman is very concerned about the environment. That is the reason why he has asked for social information to be included in the annual report. As for feedback from shareholders (and other users) we really do not have any. As I've said earlier, we disclosed information because we think we need to disclose not because we have to or are being asked to (by outside parties). I do not think users take any real notice of social information in making decisions except for certain comment, for example, our disclosure on environmental audit in Papua New Guinea so as to give comfort that we are a company that is taking care of the environment. I am not very sure whether they take into account (social information) to make decisions. Normally, to make a decision they will look at the company fundamentals, where the growth is coming from, the bottom line etc. Social information adds comfort to them that the company is aware of the issues that concern the company."*

Malaysian Airline System believes that certain social information, particularly on the human resource, is used by financial analysts.

> *"From time to time there is certain information that they (users) will ask for ... Financial analysts do come around to see the chairman, managing directors, general managers and a few others within the company to ask questions. Some of them do ask for social information especially human resource information particularly concerning pilots and cabin crews, their training and development etc ... Given that you have new landing rights, do you have the people to operate? Are they easily available? Pilots are not easily available. They take 18 to 24 months to train. They will ask for this information. They will ask for information which is critical for them to assess how you are going to manage the growth of your business."*

Oxygen Berhad also believes that the users of annual reports are using the social information provided:

> *"I think financial analysts and potential investors make full use of this information. Before they decide to invest they would want to know inside out about the company. This is particularly true for institutional investors and long term investors. Apart from the ability of the company to make profits, they would want to know about its future existence. If the management is sound and supported by its strong employees, the company is considered stable and is going to be a good investment opportunity. Those who are making a short term investment or speculating on the share price would not use this information at all."*

All the financial directors from the second group seem to agree that report users are not using this information at all. The users are more interested at the bottom line and additionally users are not well informed enough to consider social information in making their decisions. They believe that the users are not advance enough to consider social information in making decisions.

So far considerations were given to the financial directors' opinion concerning the usefulness of the social information provided in the annual reports. What do financial analysts think? Do they use this information for decision making? If they do, what kind of information is taken into consideration? When the analysts were posed with the question of the need for corporate social disclosure, all but one expressed the view that the information has some value. There seem to be some indications that investors are becoming more interested in such information especially institutional investors and trust funds. Human resource data, especially relating to training and development, is of particular interest to many analysts together with some information on the environment. Mohaini Securities for example noted:

> *"There are enquiries especially from the corporate investors. There seems to be interest in it. They ask about human resources, training of staff and others and some on the community. We also have enquiries as to whether companies are getting involved with the environment or not."*

Sarawak Securities who appear to be using this information supported Mohaini Securities adding:

> *"Information on products is still limited. Potential investors, particularly institutional investors, would like to know the type of products that the company offers, its standards and safety. Information on the environment is also lacking. We know that companies are doing their part in conserving the environment but in terms of disclosure, they are still lacking."*

Rating Agency Malaysia said:

> *"If a company is dumping toxic waste and affecting the environment, it would definitely affect the ratings of the company. It could have serious implications. The company could be ordered to shut down. We always look at the environmental impact of certain industries. How much will it cost the company to get rid of these wastes in a manner that is acceptable to the authorities and the Environmental Act? From our rating perspective the rating will go down, not because of the pressure from investors or investment groups, but because of the impact or the penalty that the government could impose on the company."*

Bank Islam Research and Training however stated that they do not take social information into consideration when making decisions. To satisfy their customers, the bottom line would be most important;

> *"We are more interested in the bottom line. If we were to invest in a company, we will make the decision based on the financial report and the future outlook, prospects and forecast growth based on the EPS. That's what the customers want. The customer is not interested in the social aspect of the company. What is important is how much dividend can the company pay. That is what we see as far as unit holders are concerned. Of course in our case, we need to know whether the company is involved in activities against the Islamic law."*

7.3.3c Summary

Most respondents regard shareholders as the major readers of annual reports. While financial analysts are also regarded as important users of annual reports, many financial directors expressed the view that annual reports are not prepared for them. Comments and feedback from users of annual reports are rare. Most directors felt that financial analysts are not interested in social information provided in the annual reports. Financial analysts on the other hand deny this. Social information provided in the annual reports, particularly human resource information apparently does have value to them. They are using this information for decision making as their customers, especially the institutional investors, do enquire about social performance. Could this suggest that there is a miscommunication between providers and users of information?

7.3.4 The Future

What will the future hold for corporate social disclosure in Malaysia? Most financial directors believe that social information has a lot of potential for aiding the development of the Malaysian economy, its community and the environment. Automotive Berhad, for example, stated that the future for corporate social reporting is bright as companies come to recognise their social responsibilities:

> *"Even though the concept of social responsibility in not new, only in the last five years or so do we seem to be talking more and more about social responsibility and the environment. The private sector is an agent of growth and development of the economy. It could be the development that triggers social responsibility. It is expected that the private sector is to carry forward the concept of social responsibility. With this responsibility, the private sector is expected to participate in more social activities, which consequently will increase disclosure."*

Guthrie believes that long term survival of the company will depend on public trust and the social responsibility that the company accepts;

> *"Social information is becoming more important. The degree of how much social information will be used in the future is yet to be seen. Definitely there will be an increase in the future. Once social activity becomes more important then long term survival will depend on the responsibilities overall, how responsive the company is towards societal needs. If we are not responsive, the company will be in trouble. For example, if we are operating a technology that is out of date such as machines which emit pollution, it will affect the perception of the public about the company. Our survival depends on public trust."*

Many believe that social disclosure is still in its infancy stage. Even though some companies do disclose social information, its usefulness is still limited except to the financial analysts. Sarawak Securities noted that in future more and more investors would take social information into consideration when making decision;

> *"Currently, not many individual investors are interested in what the company is doing socially. They are more interested in how much the company can make for them. So we do not take social information into account when advising these clients. But the time will come when individual investors will take this information into consideration. In years to come I'm sure that these investors will be concerned about what companies do apart from making profit. In future, investors will be interested not only in making profit but also conserving the environment and the socially responsibility of the company."*

As it is now, disclosing social information is a voluntary act. Companies only highlight good things to project an acceptable corporate image. Of course they are not going to disclose bad information or their shortfalls. There is no law that says they must disclose. No news is better than disclosing bad news. Financial analysts have to put their ear to the ground and seek the information elsewhere, not in the annual report. Electronic media could be a good source to get this information, especially television. For example, recently Mimaland was raking trees and so on and it was shown on TV, this will have an effect on the investors.

The financial directors interviewed also indicated that there would be an increase in their company's social obligations. Land and General noted they would be giving more to the public as the company earns more:

> *"We want to give back more to the public. The more the company earns, the more we want to give back. I think we will develop a more formal way of giving money. We'll probably see ourselves play a more important role in the future."*

Communication Berhad on the other hand believes that they have to play a balancing act because participating in too many social activities could affect their bottom line.

> *"In general it is quite a sensitive issue. Since we are a government controlled company, we have to satisfy both parties; investors and politicians. Participating in more social activities should please the politicians but on the other hand too much charity may affect the bottom line. We have to strike a balance."*

7.3.4a Areas of Disclosure

With most companies anticipating increasing social obligations and consequently a need to demonstrate acceptable social performance in the future, the amount of social disclosure, therefore may be expected to increase. Whilst human resource information will remain popular, many directors believe that information on the environment would increase in importance. Guthrie, for example, expressed the view that government regulation on the environment will become tighter and companies will have to comply with these new regulations:

> *"The government are very concerned about approving projects which have an impact on the environment. Approval for such projects is no longer automatic. Companies have to comply with the new regulations. Buying environmentally friendly equipment and machines is costly and therefore companies will disclose this in their annual reports."*

Golden Plantation believes that information on community activities will increase in importance because of increasing top management awareness of social obligations.

> *"In future I think community disclosure would increase. More and more top management are already recognising the fact that the business exists not just to make profit but also to help the public. In our mission statement, we have a responsibility to the community. This is an on going process. As the activities increase, the amount of social disclosure is bound to increase, but of course it would not take the centre stage. It will not be the bulk of the annual report. Social information would be useful not only to the users but also to the company itself. It will be a good public relations exercise informing people what we are doing."*

Financial analysts particularly would like companies to be more transparent. They would like some decision making information to be included such as non-performing loans, shortcomings of the company and information on the environment.

7.3.4b Educating the Public

Before corporate social disclose can have any significant effect on shareholders, investors and the general public, most directors believe that the main task is to educate them on the relevance and importance of the information provided. Consumer A said that:

> *"At present the Malaysian public are not yet fully aware of what is going on around them. Even in social accounting, not all accountants are aware of the issues. We need to first of all educate the public about the companies' existence and its responsibilities and we need to let the public know that we are here not only to make profits but also to help society."*

Golden Plantation believes that at present the Malaysian public has not yet reached the same stage of awareness as in the West. The Malaysian public has to be re-educated about traditional values, community and the environment:

"So far the social information in our annual reports is not being used by readers for decision-making. We have not reached the stage where Malaysians are aware of all these issues. Whilst Malaysians are not concerned about the environment, community etc, social information would be meaningless to them. As of now only those who are directly affected by, say, dumping of garbage in the lakes, would investigate the company and cry for help and improvement. Maybe we Malaysians do not have the same civic consciousness as those in the West. Or is it possible that rapid development has made us forget about our traditional cultures and values such as caring for communities, religious values and taking care of the environment? People are busy accumulating wealth and they forget others. It is a shame. We may need to re-educate our public."

Other than educating the public in social awareness and the importance of social information, a minority of directors (fifteen percent) from the first group also believed that, to move in the right direction, social disclosure should regulated. Shell, for example, expressed the view that;

"I don't think you can escape from the fact that accounting bodies will over time adopt some of these standards which are currently mandatory in the West. I think it will come but the question is when. The accounting bodies themselves and society should consider standards for disclosure and presumably, when they consider these standards they will have to make up their minds whether society as a whole has matured enough to accept the information and users of financial statements will not misuse it."

Automotive Berhad on the other hand believes that corporate social disclosure should be maintained as it is - voluntary.

"It is best that social information is disclosed voluntarily. If it is regulated, then it has to be audited. Auditing this information could be difficult. Moreover, I believe that social activities, participation and disclosure are the result of company philosophy and top management awareness. We should try

to encourage the top management to be aware of their responsibilities. We should promote voluntary disclosures by giving incentives to companies that disclose rather than regulation."

7.3.4c Summary

Most respondents agreed that social obligations, performance and amount of social disclosure will increase in the future. Information on human resources is expected to remain popular. As more top management becomes aware of their social responsibilities, information to the community is expected to increase. Information on the environment is also expected to increase as the government's concern over the environment heightens and more regulations are passed. However, before corporate social disclosure can have any significant effect on shareholders, investors and the general public, most directors believe that the main task is to educate them on the relevance and importance of the information provided and to re-instil traditional and religious values. To move in the right direction, a minority of directors believed that social disclosure should be regulated. However, the majority firmly believed that corporate social reporting should be voluntary.

7.4 DISCUSSION AND CONCLUSION

Generally, amongst interviewees there is support for corporate social reporting. Most financial directors from the group of disclosing companies indicated that the driving force for social disclosure comes via indirect pressure from government. Enhancing the corporate image in order to take advantage of market opportunities is also a major factor in companies disclosing social information. Top management awareness and accountability were suggested by a majority of directors as an additional reason for disclosure. However, this latter reason could be influenced by the two previous issues. Financial directors from the second group however, believed companies are disclosing social information not because of pressures but simply for the purpose of a public relations exercise and to some extent due to top management awareness which influences company policy. Most directors from this group (non-disclosing companies) believe that the introduction of government policy has not influenced social disclosure, but the market has. Similar to the second group, financial analysts believe that companies are disclosing social information largely as a promotional tool.

Human resource information is the most popular area for disclosure because most companies consider their employees as their main asset and strength. However, human resource information disclosed in the annual report does not seem to be targeted to the employees but is rather designed to catch shareholders' or potential investors' attention. This finding is confirmed by financial analysts' responses noting that they are using human resource information for decision making. Information on the community is also well covered by most disclosing companies. Whilst most directors noted that they disclose this information because they participate in a lot of social activities, an interesting additional reason for disclosure is that they wanted to please the politicians. This is particularly true for government controlled companies. Information on products and the environment is largely still lacking. Financial analysts indicated that they would like more information on products and the environment to be included in the annual report. For the few companies disclosing information, competitive pressures appear to be the driving force, whilst in the case of the environment the apparent aim is to inform shareholders that the company is complying with regulations. Disclosures are mainly in narrative form due to the fact that most directors felt that social information is difficult to quantify, while monetary information is limited not only due to practical problems but also because companies do not want to brag about their activities and wish to keep a low profile. Similar to the West, companies are reluctant to disclose social information due to doubts over its value, to keep the annual report brief and because of fears of confusing the readers. Modesty, a specific oriental culture, has been noted as the most popular reason for not disclosing social information. Some companies are not disclosing social information because it is against their religious beliefs.

Financial directors from both groups consider their shareholders as the main audience. They also believe that government agencies, financial analysts, customers and creditors are important users of the annual report. It is generally agreed that annual reports are not prepared for the financial analysts. With a few exceptions, financial directors believe that social information has little value to the users of annual reports.

Most of them indicated that financial analysts are not interested in social information provided. They are more interested in the bottom line. Whilst financial directors provide social information in their annual reports to inform their stakeholders of their activities, most directors believe that their users are not taking this information into consideration for decision making. Financial analysts on the other had stressed that they do take social information into consideration when making decisions, particularly information on human resources. Since comments and feedback from users are rare, a miscommunication between the providers and users of information is inevitable. The providers do not really consult the users on what information should be included in the annual report and the users on the other hand do not inform the providers what they really need and why it is important. This confirms the researcher's view that organisation and society is not in perfect harmony (see Chapter Four).

There is general agreement amongst all groups interviewed that the future for corporate social reporting in Malaysia is promising. Most of them think that, at present, the Malaysian public are too obsessed with accumulating wealth which has made them forget their traditional and religious ways. Most of them suggest that, to make social information useful, the Malaysian public has to be re-educated and traditional and religious values re-instilled. The issue of regulating corporate social reporting in future brought about mixed responses. Financial directors would prefer social information to be provided voluntarily whereas financial analysts think that regulating is inevitable.

An interesting dimension that could influence corporate social reporting in Malaysia in future is from the government controlled organisations. In Malaysia, although many companies have been privatised (see Table 2.7), a controlling share is still held by the government. Apart from making profit, these companies are also expected to fulfil the government's social obligations. The government has introduced policies that encourage companies to be accountable not only to the shareholder but also to the general public. These companies are expected to participate in social activities, discharge accountability and be transparent through disclosing social information. On the other hand, the Malaysian government is trying to instil traditional and Islamic values to the public and corporations which could have implications for social disclosure. Islamic values whilst encouraging participation in social activities, giving alms or helping others, discourage disclosure. Although companies seem to indicate that there is future potential for corporate social reporting it is very difficult to see how these conflicting forces may be resolved.

So what is driving corporate social disclosure? Basically the driving forces for corporate social disclosure in Malaysia could be identified under several inter-related categories; market, government pressure, and culture. The influence for disclosure has somewhat followed the US pattern of development, that is a reaction to market forces. The rapidly growing capital market in Malaysia has seen Malaysian society climbing the ladder of individualism. As a considerable number of Malaysian companies are still considered 'young' and small, many companies are focusing their strategy on strengthening their business by attracting more investors and increasing profit. Users of annual reports, particularly institutional investors, apart from using traditional information for decision making, are also asking for social information as indicated by some financial analysts. Reacting to market needs, a strategy adopted by many companies is to give the information demanded by these investors. Only two companies openly admitted adopting this strategy. Even though other companies interviewed denied adopting such a strategy, the focus of annual reports toward investors and the confirmation by financial analysts that they are using the information suggests otherwise. This is especially true of sensitive industries, for example the timber industry, particularly if they are trying to capture or maintain Western markets. This view is also supported by the financial analysts. This might suggest that companies are disclosing social information, consciously or unconsciously, as a result of pressure or demand.

Whereas most financial directors interviewed denied that they were under pressure to disclose social information from any quarter, their reaction to the market and introduction of government policy suggests otherwise. Many directors agreed that the introduction of government policy had prompted them to participate in more social activities and to disclose more social information. This is quite different from the Western scenario. In Malaysia, the government appears to have a strong influence over companies. Policies introduced by the government have greatly influenced companies towards becoming socially responsible, participating in social activities and consequently disclosing social information. This suggests that companies are supplying social information to satisfy the stakeholder demands.

In a neo-pluralistic society, power is not evenly distributed nor is it in the hands of a single individual or group. Certain individuals or groups may have more power than others in influencing political, economic or social matters. Similarly, the power to demand information is also not evenly distributed. The more powerful the individual or group, the more demands they can exert for more information. Government and the market are, in most companies point of view, their most powerful stakeholders. Their demand for information must be duly met in order to ensure the continued success of the company. This is consistent with Ulmann's (1985) and Robert's (1992) stakeholder theory, where the amount of social disclosure depends on the power of the stakeholder. The more powerful the stakeholder, the more will be the pressure on the management to disclose social and environmental information. In general, the views of those stakeholders with more power will tend to dominate (see Roberts, 1992; Ulmann, 1985; Gray et al., 1995) with different types of businesses having different dominant stakeholders groups. In Malaysia, even though the Malaysian government does not specifically ask for social information, the introduction of the caring policy has, unconsciously, pressured companies to disclose their activities, to show that they (companies) are in tune with the policy and participate in social activities. Conversely the demands of the less powerful stakeholders, such as the employees and advocacy groups, are not properly met. The lack of information on products and the environment by consumer and trading companies, together with the focus of human resource information towards the investors rather than the employee provides evidence to support this view.

A majority of directors indicated that they disclose social information in order to discharge accountability. Accountability in contrast to stakeholder theory, is the responsibility to account for actions for which one has social responsibility under an established contract (Gray et al., 1987). Traditionally, Malaysia has practised the culture of a close-knit community, helping and caring for one another. This culture is further reinforced by Islamic teaching where it is the responsibility of the stronger to help the weak. This culture, unique to Malaysia and other Muslim countries, has been adopted by many companies in their objectives and mission. Companies adopting this culture believe that they are accountable not only to the shareholders but also to the wider public. They believe that they have the additional responsibility to attend to the human, environmental and other social consequences of business activities that affect employees, consumers and local communities. In order to discharge accountability, companies adopting this culture are participating in many social activities and consequently disclosing social information.

Accountability theory also assumes that the inclusion of social and environmental data in the annual report provides more than just information (see Williams, 1987; Lehman, 1995), "it establishes and articulates an accountability relationship between corporations and others" (Lehman, 1995, page 408). Gray et al. (1996) explain that formal information provided will increase organisation transparency which will in turn have the effect of:

1. Helping society to reconstruct the organisation (see, for example, Hines, 1988). More aspects of organisational life will be made visible and the consequences of organisational activity and the actions of society with respect to the organisation will become more transparent.
2. The information will tend to cause 'information inductance' whereby the type of information one is required to report tends to influence the behaviour of not just the recipient of the information but also the creator and transmitter of the information.
3. The transparency engendered by accountability can have the effect of bringing the organisation and the results of the actions of the organisation into closer conjunction, that is, accountability is a result of responsibility and, in turn, increases responsibility (Gray et al., 1996, page 43)

Accountability, thus, is essentially a mechanism, the development of which contributes to the normative position of a more justly organised and better informed society.

Several companies interviewed believed that the reason for disclosure is to influence recipients' behaviour. This is consistent with Gray et al.'s (1996) accountability theory of 'information inductance' whereby the type of information one reports could influence the behaviour of not just the recipient of the information but the creator and transmitter of the information. Social information, according to these directors, is for the purpose of educating the public concerning corporate and public responsibility - discharging accountability.

From the interviews, it appears that many companies are disclosing social information because they want to help reconstruct the society by making themselves visible in the public eye. However, how genuine are the companies' intentions? This belief is also consistent with the political economy approach where a corporation uses disclosure to define itself and projects its beliefs, norms, values and perceptions in order to serve its own political or ideological goals (Tinker and Niemark, 1985). Companies may disclose social information under the pretence of accountability but are in fact trying to project their image or trying to influence investors. Human resource information, for example, was provided by companies under the pretence of discharging accountability to the employees. However, it is noted in Chapter Six that appreciation to the employees, even though were disclosed by most companies, is mentioned just as a passing statement which suggests that employees are not their target. This information, according to the financial directors interviewed, is to satisfy the need of other users, particularly the financial analysts. Whilst the inclusion of community activities information in the annual report was said to help society reconstruct the organisation and make more aspects of organisational life visible and transparent, it could also be interpreted as being for the purpose of enhancing the corporate image thus legitimising business.

There is a very thin line that separates accountability and legitimacy theory. If a company plays an active role in providing more information than is required by the users, rather than acknowledging and discharging a non-existent accountability it is for the purpose of legitimising business (Gray et al., 1996). It is evident that some companies are disclosing information that is not required by the users, for example, information on the community. Some financial directors stated that providing this information has a dual impact; apart from discharging accountability it also helps to promote the company's image.

Similar to their Western counterparts, companies would do almost anything to legitimise business. In a capitalistic world, companies take every opportunity to promote their corporate image. Since annual reports are considered the most accessible public document, they are a good vehicle to legitimise business by projecting the image that the company is socially aware and/or to hide/reduce the exposed side of the company to the social and political environment. Many directors interviewed admitted that one of the reasons for disclosing social information is to enhance their corporate image or as a marketing tool. The annual report is considered a public advertising document which is widely exploited by a range of companies in the sample. Some financial directors and financial analysts also suggested that there could be a possibility, though remote, that companies are disclosing social information to camouflage their other activities.

Some companies disclosing social information suggested that the government policy of Vision 2020 and the caring society also influenced their disclosure. The introduction of government policy even though it does not trigger social disclosure as indicated by many foreign owned companies, does encourages them to disclose more. Apart from disclosing social information in order to discharge accountability, this action could also be interpreted as trying to take a proactive approach towards influencing the public policy arena. It could provide a platform to lobby for policy changes and air managerial views. Some financial directors interviewed expressed fears that social information might become regulated and mandatorily disclosed. Their actions, therefore, may be to influence the public policy arena and avoid the prospect of regulation. A major bank, for example, noted:

> *"Social disclosure is made because of top management awareness and company policy. The company sees that it is their obligation to report to the public. Let's leave it as it is."*

From the interviews it is clear that companies are participating in a lot of social activities but choose not to disclose a big part of it. Since disclosing social information is a voluntary act, it is the prerogative of the top management to disclose or not. Topping the list of reasons for not disclosing social information is modesty and keeping a low profile. An interesting finding, which is also unique to Malaysia and Muslim countries is the Islamic view on disclosing information. Several directors interviewed noted that they are not disclosing social information because Islamic teachings discourage informing others about good deeds performed. Since good deeds should be performed with the intention of getting rewards only from God, disclosing such information would not necessary.

Identifying the real intention behind corporate social disclosure in very difficult. The decision to disclose could be made for a variety of reasons. The corporate social reporting theoretical frameworks may shed some light. Political economy theory cannot be dismissed outright because the corporations' action could be interpreted as trying to influence the public policy arena. Moreover, the companies' action of projecting their beliefs and perceptions could be premised on political economy grounds. Legitimacy theory also cannot be dismissed because of evidence found in the interviews that companies are also disclosing social information to enhance their corporate image and possibly camouflaging their activities. Gray et al.'s (1996) accountability framework may suggest that social disclosure is both viable and may contribute towards an understanding of social disclosure practices in Malaysia, however, whether the genuine intention behind disclosing social information is discharging accountability is questionable. Even though initially social information disclosure is not a response to pressure, which contradicts stakeholder theory, further probing suggests otherwise. The introduction of government policy and market demand has pressured companies into disclosing social information. Stakeholder theory may be viable and may contribute towards an understanding corporate social disclosure practice in Malaysia after all.

With increasing public awareness and the government's concern over social development, corporate social obligations and amount of social disclosure is expected to increase in the future. However, before corporate social disclose can have any significant effect on the shareholders, investors and the general public, the main task is to educate them on the relevance and importance of social information provided and to re-instil traditional and religious values.

CHAPTER EIGHT

CONCLUSION

The literature review in chapter three indicated that whilst there have been numerous studies conducted in the West, only two studies of corporate social disclosure had been conducted in Malaysia. These studies are limited to simple surveys that concentrate mainly on the amount of social disclosure by companies. One study however, did probe a bit further in investigating the reasons why companies are disclosing social information. Theoretical explanations were not, however, explored in both the Malaysian studies. Given the importance of social and environmental issues in recent times and the renewed interest in social accounting, this study set out to discover the extent of corporate social reporting in Malaysia and to update previous surveys. Furthermore, and more fundamentally, the study also sought to extend our understanding of why companies are disclosing social information, to explore the reasons for non-disclosure, the key areas of disclosure, the usefulness of information disclosed, who the target audiences are, and the future prospects of corporate social reporting in Malaysia.

The empirical component of this study began with a documentary analysis of the content of one hundred 1993 annual reports. In view of the differences in culture between Malaysia and the West, and by contrast some similarities, for example, most particularly in terms of stock market development, an attempt was made to compare social disclosure with different company characteristics such as size, profitability, industry and country of ultimate ownership to find out how applicable these characteristics are in the Malaysian environment. The second stage of the project, which comprised a programme of twenty-six personal interviews addressing three different groups of interviewees (disclosing companies, non-disclosing companies and analysts), explored the reasons for disclosure and non-disclosure, the usefulness of the information disclosed and the implications for future development.

The significant conclusions from both content analysis and interviews are now summarised and implications and recommendations for further research then suggested.

8.1 CONTENT ANALYSIS

Information disclosed in the annual report focussed mainly on financial and economic issues, i.e. bottom line profit performance. Little attention was given to providing social information. Even though seventy two per cent of the sample provided some type of social information, the average amount of disclosure was only about 12 sentences per annual report. Basically, social information provided was in narrative form coupled with some picture sniplets and graphics. The social information disclosed had the tone of a marketing approach. This view was confirmed via the interviews where most financial directors indicated that social information was provided for the purpose of enhancing corporate image.

Documentary analysis of annual reports clearly showed that voluntary social disclosure mainly concentrates on human resource information. This information largely covered employee appreciation and awards, and employee training and safety. Even though the information was about the employees, it was clear that this information was not about giving employees more information relevant to them, but rather was geared towards the interests of other users of annual reports. It was common for the chairman to include a word of thanks and encouragement to the employees and the management. This formal appreciation appeared a bit strange and difficult to comprehend since ordinary employees seldom receive a copy of the annual report.

The annual report also provides management with a public platform to air their views about their consciousness, awareness and responsibility towards the public and in the process they could also advocate their own business interest. This social part of the annual report normally included information on the community, products and the environment.

From the detailed narrative content analysis performed, a major conclusion reached was that the most important function for the annual report was to tell an economic success story. The bulk of the narrative coverage was about sales and profit performance geared to financial market criteria. A large element of this has to be for company image, morale boosting purposes and catching investors' attention. This is clearly indicated by the type of social information furnished, where only good news is presented.

Statistical analysis was conducted to investigate the relationship between company characteristics, social disclosure and the amount of disclosure. Four characteristics were identified: size, profit, industry and country of ownership. In common with the two previous Malaysian studies, this study demonstrated that only size had a significant relationship with social disclosure and the amount of social disclosure. The finding is also similar to studies made by Spicer (1978), Trotman and Bradley (1981), Cowen et al. (1991), Belkaoui and Karpik (1989), Patten (1990 and 1992), that there is a relation between corporate social disclosure and company size. Social disclosures may be correlated to company size because of a belief that the larger corporations are highly visible, make a greater impact on society, and have more shareholders who might be concerned with social programmes undertaken by the company.

Whilst many previous studies (see, for example, Abbot and Monson, 1979; Bowman and Haire, 1975; Preston, 1978; Herremans et. al., 1993; Hackston and Milne, 1996; Patten, 1991) indicated a relationship between social disclosures and profitability and industry membership, the findings of this research suggested otherwise. Companies enjoying steady growth do not necessarily disclose more social information. Profitable companies may be highly involved in social responsibility actions but may choose not to disclose such actions in the annual report. The evidence presented in this study also suggests that major firms in environmentally sensitive industries are not competing to match one another in providing comparable social disclosures in their annual reports. Corporate social disclosure is not mandatory in Malaysia and companies are seemingly not affected by pressures to disclose or choose to ignore them. Even though international companies are well aware of social disclosure practices in their home country, their lack of disclosures in Malaysia may indicate that they feel no pressures to disclose in that country.

Cultural and religious belief could offer some explanation for these differences. Formality and ritual rate very high in the Malay concept of values. What is formal is considered proper. To depart from formality is considered unbecoming, rude and deserving of misfortune (see, for example, Ryan, 1971; Mohamad, 1986). This is essentially a conservative attitude. It does not condone innovations and certainly does not encourage change and inventiveness. Malaysians, unlike individualistic westerners, identify with the group first and so emphasise harmonious personal relationships and avoidance of conflict. The aggressive individuality, which Americans believe in, has little value in Malaysia. Malaysians have the concept of a group in which every person has his/her place and duties. The personal identity of someone is found in the group. In verbal communication, Americans, unlike many Malaysians, view silence as negative and presume that if something has not been expressed in words, it has not been communicated. Communication theorists refer to this as high context and the low context communication styles. In America, nothing happens until you say something, but this is not necessary true in Malaysia. While most westerners love to talk about themselves, Malaysians love to talk about each other and especially like to elevate the other person, either by appreciation or by humbling the self.

8.2 INTERVIEWS

The interviews took the content analysis a step further and began to explore reasons for disclosure (and non-disclosure). In order to investigate the reasons for social disclosure, and to provide pointers to future development, fourteen financial directors from disclosing companies, seven from non-disclosing companies, three financial analysts from securities firms, one from a bond rating agency and one from a trust fund agency were interviewed. All directors interviewed expressed the view that they were not being pressured to disclose any social information. Most directors from the first group indicated that they are disclosing because of top management awareness, a desire to discharge accountability and to enhance the corporate image. The introduction of the government's caring policy and certain market forces had, however, apparently at least indirectly, influenced them in disclosing social information. Financial directors from non disclosing companies believed that companies are disclosing social information due to a desire to project corporate image and to a certain extent, top management awareness. Although they do not think that the introduction of government policy affects social disclosure, they believe that the market does. Similar to the latter group, financial analysts believe that companies are disclosing social information as a promotional tool. In sum, disclosure of social information in the annual reports seems to be influenced by the market forces. Even though top management awareness was indicated by most directors as the reason for social disclosure, enhancing corporate image may be top of the agenda.

Human resource information is the most popular area of disclosure. Directors interviewed believe that this information is focussed upon because the human resource is considered as a prized asset and strength without which the company could not exist and operate. However, evidence suggested that influencing investors could be their ultimate aim. Information on the community is provided because the company participated in such activities. The introduction of government policy has been a great influence on the disclosure of community information. Some companies disclose this information to please politicians. Information on products and the environment is very limited. Most companies disclose information in narrative form. Quantitative information is limited due to perceived practical constraints. Monetary information is seemingly limited because companies do not want to brag about their activities and wish to keep a low profile.

Financial directors from both groups consider their shareholders to be the main audience. They also believe that government agencies, financial analysts, customers and creditors are important users of the annual report. It was generally agreed that annual reports were not prepared for the financial analysts. With a few exceptions, financial directors from the second group believed that social information has little value to the users of annual reports. Most of them indicated that financial analysts are not interested in the social information provided and do not take such information into consideration when making decisions. Most financial directors believed that financial analysts are more interested in the bottom line profit performance. Whilst financial directors provide social information in their annual reports to inform their stakeholders of their activities, most directors believe that users are not taking this information into account in decision making. Financial analysts on the other hand stressed that they do use social information. Of particular interest to the financial analysts is the information on human resources.

8.3 ASSESSMENT OF THEORIES OF CSR

Identifying the real intention behind corporate social disclosure is very difficult. The decision to disclose could be made for a variety of reasons. Gray et al.'s (1996), accountability framework suggests that social disclosure is both viable and may contribute towards an understanding of social disclosure practices in Malaysia. Traditionally, Malaysia has practised the culture of a close-knit community, helping and caring for one another. This culture, unique to Malaysia and other Muslim countries, is further reinforced by Islamic teaching where it is the responsibility of the stronger to help the weak, and has been adopted by many companies in their objectives and missions. Companies adopting this culture believe that they are accountable not only to shareholders but also to the wider public and that they have an additional responsibility to attend to the human, environmental and other social consequences of business activities that affect employees, consumers and local communities. In order to discharge accountability, companies adopting this culture are participating in many social activities and subsequently disclosing social information. Companies disclose social information because they want to influence recipients' behaviour, that is, by educating the public concerning corporate and public responsibility. However, companies adopting this culture are few because most top management posts are held by the non-Muslims (see chapter two).

Companies may disclose social information under the pretence of accountability but are in fact trying to project their image or trying to influence investors. The inclusion of social information in the annual report has been said to help society reconstruct the organisation and make more aspects of organisational life visible and transparent (Gray et al., 1996). It could also be interpreted as being for the purpose of enhancing the corporate image and thus legitimising business. Legitimacy theory also cannot be dismissed because of evidence found in the interviews that companies are also disclosing social information to enhance their corporate image and possibly camouflaging their activities. Similar to their Western counterparts, Malaysian companies take every opportunity to promote their corporate image. Since annual reports are considered the most accessible public document, it is a good vehicle to legitimise business by projecting the image that the company is socially aware and/or to hide or reduce the exposed side of the company to the social and political environment.

Some companies disclosing social information suggested that the government policy of Vision 2020 and the caring society also influenced their disclosure policy. Apart from disclosing social information in order to discharge accountability, this action could also be interpreted as trying to take a proactive approach towards influencing the public policy arena. It could provide a platform to lobby for policy changes and air managerial views. Significantly here some financial directors expressed fears that social information might become regulated and mandatory disclosure imposed. Their actions, therefore, may be undertaken simply to influence the public policy arena and avoid the prospect of regulation. Political economy theory cannot be dismissed outright because the corporations' action could be interpreted as trying to influence the public policy arena.

Some of the influence for disclosure has somewhat followed the US pattern of development, that is, as a reaction to market forces. The rapidly growing capital market in Malaysia has seen Malaysian society climbing the ladder of individualism. As a considerable number of Malaysian companies are still considered 'young' and small, many companies are focusing their strategy on strengthening their business by attracting more investors and increasing profit. Many companies adopt the strategy of reacting to market needs to give the information demanded by investors. This is especially true of sensitive industries, for example the timber industry, particularly if they are trying to capture or maintain Western markets, which suggests that companies are disclosing social information, consciously or unconsciously, as a result of pressure or demand.

Unlike the prevailing situation in most Western countries, the government appears to have a strong influence over companies in Malaysia. Policies introduced by the government have greatly influenced companies towards becoming socially responsible, participating in social activities and disclosing social information. In Malaysia, since the government and the market are companies' most powerful stakeholders, their demand for information must be duly met in order to ensure the continued success of the company. This is consistent with Ulmann's (1985) and Robert's (1992) stakeholder theory, where the amount of social disclosure depends on the power of the stakeholder. The more powerful the stakeholder, the more will be the pressure on the management to disclose social and environmental information. In Malaysia, even though the government does not specifically ask for social information, the introduction of the caring policy has, at least unconsciously, pressured companies to disclose their activities, to show that they (companies) are in tune with the policy and participate in social activities. Conversely the demands of the less powerful stakeholders, such as the employees and advocacy groups, are not properly met. The lack of information on products and the environment supplied by consumer and trading companies, together with the focus on human resource information provision geared towards the investor rather than the employee provides evidence to support this view. Even though it appears that initially social information disclosure is not a response to pressure, which contradicts stakeholder theory, further probing suggests otherwise. The introduction of government policy and market demand has apparently pressured companies into disclosing social information which suggests that stakeholder theory may be viable and may contribute towards an understanding of corporate social disclosure practice in Malaysia.

Western derived corporate social accounting theories thus appear at least somewhat useful in explaining the reasons for social disclosure but there is no one single theory that is all embracing and can fit the Malaysian environment. On one hand, the introduction of Vision 2020 and the caring society have prompted a number of companies to disclose social information which may suggest that companies are trying to influence the public policy arena. Other companies, however, may disclose social information in order to discharge accountability. Accountability theory may be true for some but others disclose social information only under the pretence of accountability. Additionally, the influence of market forces had also pressured many companies to disclose social information, which suggests that stakeholder theory is also viable. Although the above western derived theories may be useful for explaining the reasons for companies disclosing social information they may not be fully applicable in a Malaysian context. In order to explain the reasons for companies disclosing social information more fully, we need to look at how corporate social reporting has developed in a specifically Malaysian context.

8.4 IMPLICATIONS FOR MALAYSIA

Given steady economic development in the country, together with increasing awareness of the need to develop a better society and a better world to live in, corporate social reporting is becoming more and more important in Malaysia. I sincerely believe that a company's objective is not just to increase profit but also to help build and develop society. Companies also should be made accountable for their actions that have implications for the environment and society and should lead the way in providing social information in order to discharge accountability. However, the results of the interviews undertaken implied that most social information is provided for advertisement or marketing purposes. Companies are not disclosing social information to discharge accountability but to enhance their public image. Also, a number of companies are disclosing social information both in responses to government policies and perhaps to forestall the government from going further. How do users respond to such an approach? Is the information provided useful? These questions are difficult to answer as only a limited number of financial directors had thus far consulted users concerning their needs. Similarly, users, particularly the financial analysts, on the other hand did not openly inform the preparers of annual report of their information needs. A communication gap exists. To bridge this gap a constant dialogue between the two parties is necessary. Both parties need to sit down together to air their needs and wants. The users need to inform the companies what information is considered important and why. Companies on the other hand need to communicate to the users what kind of information could be made available and the constraints on a fuller disclosure policy.

Content analysis and the interviews confirm that human resource and community activity information are the key disclosure areas. More stress should be placed on information concerning products and environmental impact. Products and services information is not only important to consumers but also to shareholders, and other users of the annual report. Product information, such as new products, research and development, product safety and environmentally safe products could help users to determine the company's strength and its future direction. Users could also find information on the environment, such as pollution discharge, sustainability, energy and greening the earth useful. Thus far there is not a single study done in Malaysia about users perception of the annual reports. Mintel's (1991) survey though not one hundred percent applicable in a Malaysian context, could provide some insight. The survey, for example, found that 39 per cent of respondents classified themselves 'dark green' in their spending. Companies participating and disclosing this information would not only help to make the world a better place to live in but also could avoid litigation and public complaints. The findings also imply that financial analysts are using the social information disclosed by companies, even though most companies denied it. Apart from human resource information, financial analysts would also like to find product and environmental information in the annual report.

From the interviews it is clear that some companies which participate in social activities choose not to disclose a big part of their activities. Since disclosing social information is a voluntary act, it is the prerogative of the top management to disclose or not. Management therefore should be 'persuaded' to disclose this information. Apart from sharpening their awareness of social responsibilities, management should be informed about the importance of disclosing information.

There is general agreement amongst all groups interviewed that the future for corporate social reporting in Malaysia will be promising. Most interviewees believed that, at present, the Malaysian public is too obsessed with accumulating wealth, which makes them forget their traditional and religious ways. The Malaysian public, as well as companies themselves, has to be re-educated, and traditional and religious values re-instilled. Individualism, accumulating wealth and individual choice are all part of human instinct to be above others. However, other moral, ethical and religious values are also embedded in the national culture to check this instinct. Many issues of rights and responsibility, freedom and social justice, and ethics need to be explored as part of the shared values in society. These issues must be instilled in the nation's mind in order to promote an ethical society.

The government's Vision 2020 apart from its emphasis on growth, industrialisation and modernisation also emphasises quality of life issues. This emphasis has already, at least indirectly, influenced some companies to disclose social information in their annual report. The government controlled organisations, for example, are expected to share the government's responsibility to discharge accountability to its public. Apart from making profit, these companies are also expected to fulfil the government's social obligations. The government has introduced policies that encourage companies to be accountable not only to the shareholder but also to the general public. These companies are expected to participate in social activities, discharge accountability and be transparent through disclosing social information. Other companies are also expected to follow suit.

On the other hand, the Malaysian government is also trying to instil traditional and Islamic values to corporations and the public in general. Islamic values whilst encouraging participation in social activities, giving alms etc also discourage disclosure and boasting. This policy could inhibit the development of corporate social reporting in Malaysia. These contradicting policies and values are unique to Malaysia and other Muslim countries. Government emphasis on social obligations together with specific Malaysian cultural factors could be the reason why there are shortcomings in corporate social disclosure practice in Malaysia. From the above, we can see that there are competing influences on corporate social reporting and only time will tell how these influences will be resolved.

Shortcomings in disclosure practice have to be addressed in order to promote corporate social reporting in Malaysia. Cultural factors, inhibiting disclosure, could be overcome. If we want to progress – because we believe development on earth is as important as peace in the afterlife, because we treasure our integrity, because we want to be looked up to – then we must have the ability to change. To change we need to have the necessary skills and knowledge, as well as the right approach.

8.4.1 Cultural Changes

From the interviews conducted, we noticed that cultural and religious beliefs appear to have a great influence in corporate social disclosure. Secrecy, for example, had discouraged disclosure while misinterpretation of religious beliefs has also inhibited social disclosure. In order to promote corporate social disclosure it is important that the top management, users and the general public change their ways. In order for a race to advance, cultural changes are inevitable. Premier Dr Mahathir Mohamad in his book The Malay Dilemma noted,

> *"Though we the Malays for example value diligence, we are, however, not hardworking. If we do something, we do not exert ourselves up to the point of complete success, until our work reaches a high standard. We are easily satisfied with the outcome of our effort. It does not matter if our work is not so good, is less durable, not permanent, unattractive or not so clean. As a result, we produce low quality products" p.150.*

These examples serve to show how different our culture is from those of more advanced Western races. We may think cultural differences do not matter, but these differences determine who succeeds and who does not.

Secrecy is another value that we should do without. An example is the comparison of the openness of research undertaken in Western culture with the work of bomohs (Malay medicine man) and dukuns (village medicine man). If our bomohs and dukuns discover a potent medicine, they will keep its formulation a secret. They will not write-up their findings in medical journals. They will not undertake further research. Regardless of whether their discovery is valid or not, they will continue to claim its efficacy and keep the formulation a secret. When they die, their formulation will be lost (see for example, Ryan 1971; Mohamed 1970,1986). Today, medical knowledge is expanding by leaps and bounds because the more advanced races do not keep their knowledge secret. And despite sharing their knowledge, they have not lost out. Therein lies the difference between the eastern culture and the culture of the West. These differences in culture and value, particularly the secrecy value, have resulted in non-transparency in communication and consequently lack of social information in annual reports. Information on equal opportunities and non- performing loans, for example, are still lacking in the annual reports. Openness and transparency should be practised to promote social disclosure.

Many of the Muslim financial directors' interviewed were reluctant to disclose social information because by doing so they believed themselves to be boasting and projecting their company's image and consequently could be branded as only interested in the pursuit of worldly wealth. Islam provides not just the spiritual framework for Malay life, but also the ethical, psychological and intellectual foundations for the community's worldview. However, most Muslims only see the spiritual aspect of life. Islam is not a ritualistic religion, which must be practised without taking into consideration the rationale behind why something needs to be done. Whatever is asked for by Islam, is linked to the well being of others. Islam does not urge the rejection of worldly wealth. There must be balance between this world and the next. Thus Muslims are asked to work as if they are going to live forever and to perform religious duties as if they are going to die the next day. What Islam demands is not rejection of the world but awareness and humanity.

> *"And when ye have completed your prayers, disperse through the land and seek the bounty of Allah and remember Allah constantly, that ye may achieve success"* (Qur'an 62:10).

Allah's creations are a gift for all. Not to appreciate and not to use this gift is particularly ungrateful to Allah. Appreciation and gratefulness not only should be expressed in prayers but also in practise (actions, words and writings). Information on the environment and sustainability therefore should be the kind of information that must be disclosed by all Muslim companies not only to discharge accountability but also to fulfil their religious obligations.

Muslim directors are also not very keen to disclose information concerning charitable works for fear that their good deeds would not be accepted by Allah. Islam, however, does not forbid disclosure of good deeds, it is the intention that is of the utmost importance.

"If you do good deeds of charity openly, it is well; but if you bestow it upon the needy in secret, it will be even better for you, and it will atone for some of your bad deeds. And God is aware of all that you do" (Qur'an 2:271).

"Those who spend their possessions (for the sake of God) by night or by day, secretly or openly, shall have their reward with the Sustainer; and no fear need they have, and neither shall they grieve" (Qur'an 2:274).

It is clear that we can progress if we are willing to develop a culture suitable for success. Our ability is no less than that of more developed nations. It is not the colour of the skin or the climate or the race, which determine success. And it is definitely not Islam that is an obstacle to progress. What hinder progress are the culture we have developed for ourselves, the culture which we believe is suitable for Islam and which gives us identity as Malays. This is the culture that has obstructed our progress. To place our race on par with those who have advanced in this world, and in order that we will not be humiliated and oppressed by other races, we must consciously and wisely build a new culture which will ensure that we can become a progressive race. 'Melayu baru' (The New Malay), a dream of the Premier, should be someone who has a culture that is suitable to the changing of times, who is willing to face challenges, who can compete without assistance, who is educated and learned, sophisticated, sincere, disciplined, trustworthy and efficient. We will not be less Malay or less Malaysian because we accept certain aspects of a foreign culture, or just because we are interested to learn something in depth and become more knowledgeable. It is not that all of our culture is unsuitable. If that were the case, we would not be where we are now. But we must determine which aspects of it will help us to become a developed race.

The Premier in his speech delivered at the 40th General Assembly of the United Malays National Organisation (UMNO) in Kuala Lumpur on September 5, 1997 titled *'Redeeming the honour of race and religion'* said:

> *"The acquisition of knowledge and skills, intellectual and material wealth, is part of the means to preserve the faith. Muslim must pursue all knowledge in order to protect their faith. It is because they neglect knowledge that is not manifested to the religious rituals and laws governing the practice of the religion that they have become weak and easily oppressed, and in many instances, disillusioned with their own faith. It is therefore, important that the faithful must correct their narrow view of Islam and the Islamic way of life. Only a strong Islamic country with Muslims proficient in many areas of knowledge and skills, can help to define the religion and its followers*".

Malaysia is set on a course to become a developed nation by the year 2020. Economically Malaysia is following the footstep of the developed nations. However, when it comes to cultural and religious belief a tremendous gap still exists. From the interviews we noted that while some companies are trying to follow what their counterparts in the west are doing, others are reluctant because their cultural and religious beliefs restrain them from doing so. When it comes to corporate social reporting, Malaysian is still lagging behind compared to their western counterparts. In order to become a developed race certain Western values must be adopted, particularly openness, transparency, equality, quality consciousness and environmental friendly sensitivity.

From the interviews we also discovered that there is a communication gap between the users and the preparers of annual reports. The preparers appeared not be in communication with the users and visa versa. The preparers seldom provide the information needed by the users and the users seldom communicate to the preparers the information needed. Therefore, apart from educating and changing the culture values of a nation, we also need to address the accounting professions, higher institutions of learning, the government and companies concerning their role in closing this communication gap. The next section considers some possible ways to begin to close the gap.

8.4.2 The Accounting Profession

The accounting profession has perhaps the most important role to play in promoting corporate social disclosure. Initially, the profession needs to identify what are the information requirements of users and what information can, realistically, be supplied by preparers. The profession must be the mediator between the two parties. In order to make the social information disclosed relevant, significant and fair, proper guidelines should be formulated by the accounting profession if the standard of CSR is to be raised.

Medley (1997) a practising accountant in Australia noted that many accountants today do not consider social or environmental issues relevant to their profession. They believe that social information cannot be quantified and is simply a tool to enhance corporate image. Similarly in Malaysia, some of the financial directors interviewed noted that accountants should not be involved with subjective matters such as CSR and it should be left to the public relations department within companies. In an era of increased social and environmental awareness and business scrutiny, corporate reports may be having an appreciable effect on investment decisions. External verification of this information would lend substantial credibility to this new trend in corporate communications and would benefit the investing public by providing assurance on the relatively new form of disclosure in an increasingly complex investment marketplace. Accountants should have a role in attesting to these disclosures (see Chaney 1995). It is, however, sad to note that some of the financial directors interviewed had not even heard of social accounting/disclosure. After explaining to them the meaning of the term, they agreed that CSR is essential for company development and as a demonstration of responsible corporate behaviour. Therefore there is clearly a need to assimilate this knowledge to them. The question is how? Whittington (1995) believes that academics do not offer solutions which practitioners find really useful. I on the other hand believe academia provides one avenue where we can supply knowledge. Academicians and the professions need to go hand in hand in promoting corporate social reporting. As an example, little has been known about how managers with responsibilities for environmental affairs acquire their knowledge and expertise. During the past decades, it has become clear that industry's environmental responsibilities have grown with alarming speed, often threatening the very existence of companies faced with increasing financial liabilities. By contrast, the education and training of future and existing managers has generally lagged behind. I believe that we need to link research with teaching and teaching with practice through the development of the curriculum. Bebbington (1995) has provided an excellent review of the lack of connection between curricula and the services which accountants provide. In Malaysia, most accounting students are not yet exposed to social reporting. In order to promote CSR, they need to be exposed to this through properly designed curricula.

8.4.3 Universities

Institutions of higher learning have both a very important political role to play and a role as opinion-makers. Institutions of higher learning which produce the key decision-makers of tomorrow are in a strong position to play an important role in education, research, and policy developments within society. This gives the social partners a major responsibility to increase the awareness, knowledge, and skills needed to realise social balance and an environmentally more sustainable future. Institutions of higher learning have long been able to provide highly competent and well-tested frameworks and approaches for handling complex tasks. However, none of the normal institutions offering Bachelors or Masters degrees within Malaysia have fully integrated the environment into existing curricula. Therefore, the importance of educators' and institutions' roles and responsibilities in teaching values and attitudes should be strongly emphasised. Additionally, it should also be emphasised that institutions of higher learning have a responsibility to stay ahead of business in order to provide the community in general and the business community in particular, with the necessary means to cope with problems both before and after they occur. This implies that it is not sufficient just to teach what is practised but also to foresee what will be practised.

8.4.4 Government

The Malaysian government has taken tentative steps towards promoting disclosure. Introduction of the 'Caring Society Policy', 'Vision 2020' and legislation on pollution control, environmental impact assessment, industrial safety and employee welfare, amongst other things, has brought home to companies the importance of CSR. The government, however, still has a larger role to play. The decision of whether to impose or not to impose regulations on matters such as the environment would greatly affect the disclosure of social information.

Environmental self regulation has often been cited as an (opposite) option to environmental regulàtion, begging the question as to whether the choice is so clear-cut. This in turn depends on which side one is on. Self-regulation is based on the idea that environmental problems are best dealt with through the market system i.e. practical solutions to industrial environmental problems are best dealt with by the polluters themselves, since they have both the know-how and the money necessary to solve them. However, abstaining from public environmental regulation and leaving matters entirely in the hands of industry will neither ensure that the general process of change towards a more sustainable development proceeds fast enough nor that it will be efficient enough. First of all, such a strategy does not encompass the considerable number of environmental problems caused by private households. Second, it will not prevent from 'free-riders' from cynically exploiting the good will and intentions of concerned corporations. Third, some very harmful wastes, such as radioactive wastes, gene-manipulated/genetically engineered materials, chemicals etc., need to be strictly accounted for and controlled.

Re-education is also necessary to make companies and the public aware of the importance of moral, ethical and religious values. Many issues of rights and responsibility, freedom and social justice, and ethics need to be explored as part of the shared values within society. These issues must be instilled in the nation's mind in order to become an ethical society. Corporate social reporting would be best promoted when the nation is ethical.

8.4.5 Companies

In order for a company to disclose social information, it must first of all be aware of its social responsibilities and participate in social activities. It is therefore of the utmost importance that the top management is aware of their responsibilities. It is important that the companies who want to implement environmental and safety standards have the support of all corporate employees. Analysts are now beginning to recognise that financial value arises from strategies such as sustainability, environmental protection and pollution prevention, especially as environmental risks are reduced. In order to achieve this, employee commitment could be encouraged by means of a multitude of approaches, of which internal training is extremely important. Companies could also develop training courses for their suppliers in order to ensure a higher degree of compliance with internal environmental standards. Corporate education activities could also involve external stakeholders and schoolchildren. Companies could even develop a total teaching package for secondary schools and establish advisory and/or working groups on business education and training programmes.

Bridging the communication gap needs the co-operation from all parties involved. The users need to identify the kind of information they need and the preparers need to communicate what information they can realistically provide. To make sure that the information provided is accurate and credible, the accounting profession needs to play a role in formulating guidelines and standards. Also the profession needs to communicate with the universities and academicians in developing a suitable curriculum to link teaching with research. Universities on the other hand need to develop a curriculum that fits with what is practised and foresees what will be practised. Apart from re-educating the public and companies on the importance of moral, ethical and religious values the government will have to weigh and decide whether to impose environmental regulations or not. For their part, companies will have to be proactive in increasing of awareness in social responsibilities, providing training and developing corporate education activities. A message that all companies should adopt would be 'social activities discharge public accountability and disclosing such activities could provide a competitive edge'.

Given the limitations of this study (see Chapter Six), realising the existence of a communication gap and the need for provision of social information other than that simply concerning the human resource (financial analysts in particular are very interested in information such as, pollution, energy, environment, products, equal opportunities and non-performing loans), together with the current shortcomings of Malaysian corporate social reporting practice, recommendations for future research are now briefly explored.

8.5 RECOMMENDATIONS FOR FUTURE RESEARCH

Given the steady improvement in the economic climate of the country and the current government policies, corporate social reporting in Malaysia arguably has a strong future. Social trends towards wider participation and involvement will continue. Information disclosure, therefore, can be expected to increase in terms of both quantity and relevance. Corporate social disclosure is a fruitful area for further research. Opportunities for longitudinal and case study research are most encouraging which can increase our understanding of what is driving disclosure, enabling us to make predictions of future activity and to evaluate its adequacy.

As the current study focused only on a single year's annual reports, a pattern of social disclosure could not be determined. A longitudinal study could help to locate trends in the pattern of disclosure. Significant changes in social disclosure throughout the period of study could pinpoint issues such as the impact of the market, government policies, and cultural factors that influence corporate social reporting. The impact of corporate characteristics on the levels of corporate social disclosure could also be further tested. For example, areas and types of disclosure could be tested against the expanded range of corporate characteristics over a period of several years (Gray et. al., 1995a). The number of major lawsuits filed against firms in each industry could also be tested for its association with areas or types of disclosure. Another useful topic for future research would be to address the question of whether observed corporate social disclosure correlates with the degree of actual corporate social activity.

Hopwood (1987) has noted that case studies could not only generate a better understanding of accounting practice but also the role and function of accounting in organisations. Case studies would give some insight as to the pressures which accounting exerts and has exerted, together with the interests it serves and undermines, and enables some comparison to be made between the claimed potential of accounting and its practical achievements and consequences. Humphrey and Scapens (1996) argued that by recognising the dynamics of the interaction between theory and observation, the potential of case studies will be enhanced by bringing conversations about theory more explicitly into the accounting research process. Therefore, case studies can do more than just illustrate social theories. They have the potential to play a broader role in the development of social accounting theories. In generating a richer set of data, case study research could provide insight into the role of social information. A case study analysis could therefore address the complex and contradictory cultural and economic factors that influence corporate social reporting and can tease out at how these issues are balanced in corporate decision making. First there is a need to understand the management's specific reason for disclosing/not disclosing social information and second to find out the importance of this information to users. Research must therefore concentrate not only on financial analysts but also the employees, customers, government bodies and other stakeholders.

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APPENDIX 1

SOCIAL RESPONSIBILITY DISCLOSURE ITEMS
BY MAJOR CATEGORIES

FIRST CATEGORY: HUMAN RESOURCE

1. Employee appreciation
2. Number of employees
3. Training and Safety
4. Welfare
5. Awards
6. Employee Share Option Scheme

SECOND CATEGORY: COMMUNITY INVOLVEMENT

1. Education
2. Sports and Culture
3. Health and Hard Core Poor
4. Charity

THIRD CATEGORY: PRODUCT

1. General Statement (includes awards, and other related product/service related disclosure)
2. Product Quality and Safety
3. Research and Design

FOURTH CATEGORY: ENVIRONMENT

1. Emissions
2. Waste
3. General Environmental Disclosure (landscapping, education on environment, environmental safety etc)

APPENDIX 2

VARIABLE DEFINITIONS

DEPENDENT VARIABLES:

Total Social Disclosure	Total SOCIAL REPORTING by firm of all four major areas of disclosure.

MAJOR AREAS OF DISCLOSURE:

Human Resource	Disclosures regarding employee well being. These include promotion, bonuses, profit sharing, training programs, tuition assistance, scholarships, employee health and safety. It also includes employment of minorities, handicapped and women, education and development of employee and other employee related disclosures. This category captures six disclosure items.
Community Involvement	Disclosures regarding firm's involvement in the community. These include community activities in offering grants, health related programs, aid to colleges, and charitable contributions. It also includes scholarship and support programs for the poor, eradication of poverty, direct financial support to sports and culture, and other community activity disclosure. This category consists of four disclosure items.
Product	Disclosure regarding product safety, design, quality, warranty and research. It also includes disclosing whether products meet applicable safety standards, improving packaging and labelling of products to minimise possibilities of harm or injury and other product related

	disclosures. This category incorporates three disclosure items.
Environment	Disclosures regarding the environment. These include pollution control, water and air pollution avoidance or reduction, clean up cost and litigation, installation of new equipment, co-operating with the state and federal government in developing improved systems of environmental management, and other environmental related issues. This category includes three disclosure items.

EXPLANATORY VARIABLES:

Firm Size	Firm size was taken from Extel Financial Asia Pacific Handbook 1993 by market capitalisation.
Profitability	Performance was measured by using the firm's Return on Asset (Net profit before tax/total Assets)
Industry	Divided into seven industry groups parallel with Kuala Lumpur Stock Exchange Listings (Trading, Finance, Construction, Plantations, Manufacturing, Properties and Consumer).
Country of Ultimate Ownership	Divided according to world geographical region (Malaysia, Europe, USA and Others)

APPENDIX 3

SELECTION OF RESPONDENT GROUPS

GROUP A: COMPANIES DISCLOSING SOCIAL INFORMATION

Company Name	Industry	Ownership	Ranking
1. Communication Berhad*	Trading	Malaysia	2
2. Malaysian airline System	Trading	Malaysia	21
3. Bank A Berhad*	Finance	Malaysia	8
4. Bank Islam Malaysia Berhad	Finance	Malaysia	113
5. Sime UEP Berhad	Properties	Malaysia	59
6. Land and General	Properties	Malaysia	31
7. Golden Hope Plantation	Plantation	Malaysia	39
8. Guthrie Berhad	Plantation	Malaysia	16
9. Consumer Berhad*	Consumer	Europe	18
10. Automotive Berhad*	Consumer	Malaysia	20
11. Oxygen Berhad*	Manufacturing	Malaysia	67
12. Shell Refining Bhd	Manufacturing	Europe	34
13. Construction A*	Construction	Malaysia	168
14. Construction B*	Construction	Malaysia	53

GROUP B: COMPANIES NOT DISCLOSING SOCIAL INFORMATION

Company Name	Industry	Ownership	Ranking
1. Shipping Corp*	Trading	Malaysia	9
2. Pacific Bank	Finance	Malaysia	86
3. Consolidated Plantation	Plantation	Malaysia	49
4. Properties A*	Properties	Malaysia	64
5. Ciggaratte A*	Consumer	Europe	23
6. Cement Berhad*	Manufacturing	Europe	42
7. Construction C*	Construction	Malaysia	37

* Companies concerned requested confidentiality.

GROUP C: FINANCIAL ANALYSTS

Company Name

1. Sarawak Securities
2. Mohaini Securities
3. Rating Agency Malaysia
4. Bank Islam Unit Trust
5. Capital Corporation

APPENDIX 4

QUESTIONNAIRES

A COMPANIES DISCLOSING SOCIAL INFORMATION

Section A

a. Have you come across the term social accounting? Corporate Social Disclosure?

b. Do you believe that there is a need for CSR? Why?

Section B

c. What prompted your company to disclose social information?

- Government policy? do you think the `caring society' policy introduced by the govt made an impact on your social disclosure?
- Pressures:

  Employees

  Customers

  Activist Groups

  Community
- Company philosophy
- Directive from parent Co
- Public image
- Other companies disclosing
- Others

d. What areas of social disclosure does your the company give particular attention to and why?

e. There is only minimal disclosure or none at all in some social areas, why?

- Not enough resources?
- Cost does not benefit the company?
- Others

f. Your company participated in a lot of social activities. A lot of them are not reported, why?

- Modest?
- To keep annual report brief?
- Fear of critism?

Section C

g. Who are the three most important stakeholder audiences for the information contained in the annual report?
   - Financial Analysts?
   - Shareholders?
   - Customers?
   - Government?

h. Have you consulted these groups:
   - for their information need?
   - for feedback on your reporting activity?

i. Disclosure is basically in the form of narrative. Why not quantitative and monetary?

j. Do you think the users of financial statement use social information for decision making?

Section D

l. Who determines the content of annual report? Does the financial director/accountant play a role in determining the social disclosures? The amount?

m. Do you foresee any increase in your company's social obligation in the future?

n. Do you think that the amount of social disclosure will increase in the future? Which area and why?

o. Who is responsible for deciding participation in social responsibility actions and how? (Ref to e)

p. Does your company monitor social responsibility actions? How?

q. Does your company report social information other than in the annual report?

B COMPANIES NOT DISCLOSING SOCIAL INFORMATION

Section A

a. Have you come across the term social accounting? CSR

b. Do you believe that there is a need for CSR? Why?

Section B

c. Other companies in your industrial groups are disclosing in social areas, why not your company?

- Modest
- The company's main aim is to maximise profit.
- Not socially responsible
- Not enough resources
- Cost does not benefit the company
- To keep annual report brief and simple
- Information is of no use to the users of financial statement

d. Your company participated in a lot of social activities, why not report them?

e. Do your company report any social information in other media than the annual report?

f. Is your company under any pressure to disclose social information?

- Pressures:

  Employees

  Customers

  Activist Groups

  Community
- Government? - Vision 2020, Caring society?
- Parent Company?
- Public Image?
- Others

g. Do you think that social information is of any use to the users of financial statements? why/how?

Section C

h. Who are the three most important stakeholder audiences for the information contained in the annual report/

i. Have you consulted these groups:(especially the Fin analyst)

  - for their information need?
  - for feedback on your reporting activity?

Section D

j. Do you think that there is any linkage between social performance and social awareness of top management?

k. Do you think there is any link between corporate social disclosure and financial performanceof a company?

l. Why do you think other companies are disclosing social information in their annual reports?

m. Do you think that your company will disclose social information in the future? Which area will be focused upon? Why?

n. Does the financial director/accountant have any say in determining the content of the annual report?

o. In your opinion, who should be responsible for preparing and disclosing social information? Why? i.e. particularly financial director/accountant

C FINANCIAL ANALYSTS

Section A

a. Have you come across the term social accounting? Corporate Social Reporting?

b. Do you believe that there is a need for CSR?

Section B

c. Which social information would you consider to be of particular interest to the financial analyst? Why?

d. How should the social information be presented? Where?

e. In your opinoin, do corporations disclose enough social information?

f. What other information would you like to find in the annual report?

g. In your opinion, who should be responsible for preparing and disclosing social information? Why?

h. From the social information disclosed, would you be able to make comparisons or predictions?

Section C

i. How important do you think social information disclosed by companies will be for financial analysts? In the future?

j. Do you believe there is any link between social disclosure and financial performance of a company?

k. Do your customers insist on investing in companies which are socially aware and responsible? What type of customers?
   - Individual investors?
   - Corporations?
   - Trust Funds

D GENERAL QUESTIONS

a. Financial Sectors - Why disclosures are not in monetary terms?

b. Even though participated in a lot of social activities, no disclosures are made.

c. American and European companies: Parent companies are disclosing social informations, but not here. Is there no pressure?

d. Could the disclosure of Malaysian companies be due to the 'caring society' policy?

e. Why are manufacturing disclosing less than the plantations? Could it be that plantations are in a higher rank division?

f. Plantation discloses on workers accomodation. Could it be for public image? Poor workers accomodation and working condition are normally the case.

g. Theo and Thong - foreign companies disclose more. New findings, Malaysian companies disclose more. Could it be that Malaysian companies are bigger? Change in attitude over time?

h. Manufacturing - covers a lot of areas but the total quantity of disclosure is low. Why?

i. Why construction co's are disclosing less on the environment?

j. The disclosure of social information in the anual report is to satisfy the need of the stakeholders?

k. Is there any corelation between the size of a company and the amount of social disclosure?

l. More profit, more social disclosure?

m. Companies who have vested interest in other countries, especially when trying to capture foreign market, will they disclose more social information?

n. Do you think that companies that are disclosing social information are trying to camouflage something?

o. Social reporting in the future?

p. For the time being, do you think Malaysians are educated enough to take social information into consideration before making decisions?

q. What if social information is regulated?

APPENDIX 5

STATISTICAL ANALYSIS

The distinction between types of scale is important to'determine the appropriate type of statistical analysis to be used. To use parametric statistical tests, one should have used an interval or ratio scale of measurement. Apart from an interval scale of measurement, another important assumption in a parametric significance test is that the data is drawn from a popularion with a normal distribution. The normal distribution (frequency distribution) curve is fundamental to statistical analysis. The normal distribution curve is symmetrical, with the 'middle' being equal to the man. If the data is measured on an ordinal scale, one should use non-parametric tests. For nominal scales, some of the non-parametric tests, such as chi-square are appropriate.

Non-parametric tests are used when the data does not lend itself to parametric test because it is rank data, is skewed, or the groups show unequal variance or distribution. Non-parametric tests cannot be used as a matter of fact, however, because should the data meet the requirements of t-test, the comparable non-parametric test may lack the power to reject the hypothesis, should that be true. It is best to consider parametric tests first, resorting to the non parametric alternative only if the data seriously violates the parametric requirements.

PEARSON CORRELATION

A correlation is a test to predict one variable from another, i.e. the extent to which two variables vary togehter. A positive correlation means that as one variable increases so does the other. Correlations vary between -1.0 and +1.0; a correlation value of 0.00 means there is no relationship between the two variables. To test the levels of association between the dependent variable (amount of social disclosure) and independent variables (size and profitability), a parametric variable of correlation, a Pearson product moment correlation was performed.

The Pearson parametric correlation test was used to investigate Hypotheses 2 and 4. Due to non-normality, size measure, profitability measure and amount of disclosure have been transformed by their natural log. Apart from using parametric testing, a non-parametric test was also performed. This non-parametric test was found to be most appropriate for dependent variables of nominal scale and data with an abnormal distribution; that is, the sample was not randomly chosen but chosen to investigate the largest and by inference the most influential companies. Since the independent variables for other hypotheses are in nominal scale, non-parametric statistics were performed.

MANN-WHITNEY U TEST

This test requires the ranking of each company according to amount of disclosure and also according to the magnitude of each characteristic. The two rankings are then compared for correlation. To test whether the coefficients were significantly greater or less than zero the correlation coefficients were assumed to closely approximate the t-distribution as the number of observations were greater than 10. This enabled the test for the product-moment coefficient to be used without assumptions underlying the parametric methods. The Mann-Whitney test is used to compare two sets of data obtained from independent groups. The whole collection of scores are ranked the sum of the rank values of each sub-group is calculated, and a U statistic is then calculated. The Mann-Whitney U test was used to investigate Hypotheses 1, 3 and 8.

CHI-SQUARE TEST

The Chi-Squar test is used with nominal (frequency) data, where subjects are assigned to categories. The test rests upon comparing the observed frequencies with the 'expected' frequencies which would be obtained if there were no relationship between the row variable and the column variable. As both the dependent and independent variables used to test Hypotheses 5 and 7 are in nominal scale, a Chi-square test is appropriate to evaluate the results.

In order to meet Chi-square test requirements, a new country of ownership grouping is identified as local and foreign owned ownership, while the new industry groups are as follows:

- Group 1 - Trading and Finance
- Group 2 - Construction, Consumers and Properties
- Group 3 - Plantation and Manufacturing.

KRUSKAL-WALLIS

A Kruskal-Wallis test is used when there are three or more independent groups (between subject design). The method is similar to Mann-Whitney. Since Hypothesis 6 meets the requirement, a Kruskal-Wallis test was conducted.