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DETERMINANTS OF CSR DISCLOSURE: A STUDY ON THE LISTED FMCG  
COMPANIES IN BURSA MALAYSIA

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## DECLARATION

“I admit this report is a product of my own work except the citation for each of which I have mentioned the sources.”

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## DEDICATION

To my dearest family members,  
who always encouraged me and backed me up to go on every adventure,  
especially this one.

To those who inspired researchers to study on CSR,  
and who willing to lend a hand in the efforts which to create a greener, better,  
and lovelier tomorrow.

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## ABSTRACT

As the rising of the corporate social responsibilities (CSR) is becoming a concern since the millennium year, most of the companies especially large or public listed companies in Bursa Malaysia started to implement the projects of CSR. However, there are not much of those companies willing to disclose their CSR information to the public. Therefore, this endeavour is to investigate the content of CSR in annual reports and examine the relationship between determinants and CSR disclosure of listed FMCG companies in Bursa Malaysia. This is a quantitative research, which involve content analysis since it adopted annual reports as main data resources. CSR information, financial report and organisation information are going to be extracted to reckon the relationships between the variables and CSR disclosure by using CSR index, Pearson Correlation and multiple regression. Result based on the analysis indicated that only two variables were positively and significantly correlated with the CSR disclosure, which namely profits earned and independent directors. The top three elements that the most disclosed by these companies are general philanthropy, community programs and employee welfare. The limitations in this study included one single industry is restricted and the sources are attainable in annual reports and web sites only. This study is important and useful to those companies who take into consideration in identifying governance characteristics that will enhance the CSR disclosure. Not only that, this study also helps company in business decision making as this provide the extent of CSR disclosure of the industry. The understanding of the variables that affect the CSR disclosure may help in increase the degree of CSR disclosure as mentioned that CSR disclosure in Malaysia is in nascent stage.

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

## ABSTRAK

Terbitan daripada tanggungjawab sosial korporat (CSR) menjadi satu titikan fokus sejak tahun milenium, kebanyakan syarikat-syarikat tersenarai di Bursa Malaysia terutamanya besar telah mula melaksanakan projek-projek CSR. Walau bagaimanapun, terdapat kebanyakan syarikat-syarikat tidak sedia dan ingin untuk mendedahkan maklumat CSR mereka kepada publik. Oleh itu, usaha ini adalah untuk mengkaji hubungan antara penentu dan pendedahan CSR syarikat barangan pengguna gerak pantas (FMCG) yang tersenarai di Bursa Malaysia. Ini adalah kajian kuantitatif yang melibatkan kaedah analisis kandungan kerana ia akan memerlukan laporan tahunan sebagai sumber data utama. Maklumat CSR, laporan kewangan dan organisasi akan digunakan bagi mengkaji hubungan antara pembolehubah dan pendedahan CSR, melalui index CSR, Pearson korelasi, dan regresi. Merujuk analisis yang didapati, hanya dua penentu berkaitan dengan pendedahan CSR secara positif dan ketara, iaitu keuntungan dan pengaruh bebas. Tiga unsur utama yang paling hangat dibincangkan dalam laporan tahunan ialah kedermawanan umum, program kemasyarakatan dan kebajikan pekerja. Limitasi kajian ini termasuk hanya satu industri yang terlibat dan sumber-sumber kajian hanya boleh didapati melalui laman web dan laporan tahunan. Kajian ini penting dan berguna kepada syarikat-syarikat yang ingin mengambil kira dalam mengenal pasti ciri-ciri tadbir urus yang akan meningkatkan pendedahan CSR. Bukan begitu sahaja, kajian ini juga membantu syarikat untuk membuat keputusan dalam perniagaan kerana kandungan pendedahan CSR dalam industri juga telah dikaji. Pemahaman mengenai pembolehubah yang memberi kesan kepada pendedahan CSR juga boleh membantu dalam meningkatkan tahap pendedahan CSR kerana CSR pendedahan di Malaysia masih di peringkat nasen.

**Kata Kunci:** Tanggungjawab social korporat, pendedahan infomasi, Bursa Malaysia, laporan tahunan, barangan pengguna gerak pantas,

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**LIST OF SYMBOLS/ ACRONYMS**

$\Sigma$	=	Sum
e	=	error term
$\beta_0$	=	constant term
$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$	=	parameters
Lg10	=	Log 10
CSR	=	Corporate Social Responsibility
FMCG	=	Fast Moving Consumer Goods
ROA	=	Return on Assets
EPS	=	Earnings Per Share
ID	=	Independent Directors
GST	=	Goods and Service Tax
RM	=	Ringgit Malaysia
GDP	=	Gross Domestic Product

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## **CHAPTER 1**

### **INTRODUCTION**

This chapter will be a brief introduction of the research topic. It includes the purpose to conduct the research and the significant of the study.

In this chapter has divided into 7 parts. The background of the study will be the first to be illustrated, and then followed by problem statement and research questions as second and third part of this chapter respectively. The forth part is belongs to research objectives, and limitation is the fifth part. Second last part pointed out the importance of the study. Lastly, this chapter will end by the summary from all of above.

#### **1.1 Background of Study**

##### **1.1.1 CSR Introduction**

In across the years, there has been a significant increase in the awareness and practice of corporate social responsibilities (CSR). CSR become increasingly



important perhaps due to fallout from giant companies' scandals; image building appears to be a primary motivating factor for companies to involve with CSR (M.S Adamu and Wan Fauziah, 2013). In other words, companies committed in CSR projects due to the reason of sustainability in their own industry. Although the initial purposes to participate in CSR activities were just simply a contribution to the society and environment, but the phenomena had changed. Due to the several factors such as the rapid acceleration of technology development, constantly shifting of market realities, and the mutative of globalization, companies see CSR as one of their marketing tools to polish their brand image and increase the reputation of company's name. In reality, many researchers gave the same answer towards the statement of CSR helps in bringing up the reputation of company. One of the proves is the result of research carried by Tiago Melo (2009), which concluded that the effects of CSR positively act on a company's brand value. Therefore the number of organizations which are now engaged to CSR is getting larger and larger, and they gave lots of serious efforts in defining and integrating CSR into all aspects of their businesses.

### **1.1.2 CSR Disclosure Level in Malaysia**

However, previous study showed the level of CSR of Malaysian public listed companies are remained low since year of 1980 (Foo and Tan, 1988; Nik Ahmad and Sulaiman, 2004; Mohamed Zain and Janggu, 2006). Fortunately this scene was not last longer until the past decade. Much credits of the policies and initiatives of the federal government and it agencies (Sharma, 2013). For the sake of listed companies in Malaysia, the Bursa Malaysia Securities Berhad Main Market listing Requirements (Listing Requirements) which was amended in September 2006, makes it mandatory for listed companies to provide a description of the CSR activities or practices undertaken by them (ssm.com, 2013). At there the government also highlighted the objectives to disclose the CSR projects to the public.

Corporate social disclosure can be defined as the provision of financial and non-financial information relating to an organization's interaction with its physical and social environment, as stated in the annual reports or separate social reports (Hackston and Mine, 1996). The disclosure rate of CSR projects from public listed companies in Malaysia was boosted through the efforts by government's policies, recognitions and awards such as ACCA Malaysia Sustainability Reporting Awards ("ACCA MaSRA"). Malaysia's government outlined the incentives for companies with CSR programmes and introduced the needs for disclosure their CSR activities in its 2008/2009 National Budget (Malaysia Budget, 2008). However this brought us the result of varied information was found from the disclosure of companies' CSR activities due to the absence of standard for CSR disclosure.

### **1.1.3 Implementation of Goods and Service Tax**

The implementation of Goods and Service Tax (GST) in Malaysia was started since April of 2015, which is a consumption tax applied to all sectors and industries except specific goods and services which are categorized under zero rated supply and exempt supply orders as determined by Ministry of Finance. GST is to be levied and charged at the proposed rate of 6% on the value of the supply (gst.com.my, n. d.). GST is directly affecting the leverage and profitability of a company. Some companies choose to directly surpass the charge to their customers, whereas the other some companies choose to cover the tax by maintaining the price of products, which became one of their marketing and sustainability strategies in the market. But, there are definitely not much traders willing to absorb the tax in the long run because not all companies has the "stomach" or financial ability to do so. Due to this newly implemented taxing system is affecting the whole supply chain of industries; hence the effect of GST to the disclosure of CSR information of all industry, especially the fast moving consumer goods (FMCG) companies of consumer goods industry in Bursa Malaysia is uncertain. Fast moving consumer goods are defined as those products frequently bought and purchased by end users instead of manufacturer or intermediaries for the purpose of reselling or produce another products.

#### **1.1.4 The Impact of Depreciation of Ringgit Malaysia**

In additional, at the late year of 2014, the Ringgit Malaysia (RM) started to experience a continuously currency depreciation. Before closing of 3 December 2014, RM dropped 3.4455 to the US dollar which considered as the worst situation since February of 2010. Unfortunately, the depreciation of RM is not successfully to be ended in year 2015. On 11 March 2015, RM is traded to a lower value, 3.7743. This incident caused a high volatile liquidity movement in the current and future market. It is believed that the depreciation of RM also may bring many direct effects to the CSR disclosure of FMCG companies in Bursa Malaysia as it also influences the financial result of the company.

### **1.2 Problem Statement**

As mentioned at the previous subtopic, the lacking of CSR disclosure standard cause the disclosure of CSR information was not uniformed. Many researchers had examined the relationship between determinants and CSR disclosure. But none of the research is focusing into one single industry field, especially the FMCG companies which are now become the focus point of whole supply chain in this newly GST implemented country, as it directly affecting large scale of population. The previous studies on the relevant titles are more likely to pick the public listed companies randomly from each industry. In additional, some of the studies got its' sample size are small for example 14.3% (S.Y. Liew and etc, 2012), 25% (Roshima and etc, 2007), 14%-29% (Nazli & Dodik, 2001). Not only that, there is no research investigates on these determinants, which including the corporate governance characteristics simultaneously with CSR disclosure.

Hence 5 determinants, included the corporate governance characteristics were chosen, which are profitability (Sabadoz, 2011), company size (Udayasankar, 2007), share return ( Prior, Surroca, & Tribo, 2008), level of leverage (Ibrahim and Zam, etc., 2013), and independent directors ( Elinda Esa and Nazli, 2012). Of course there

are still a lot of factors to be examined, but those 5 determinants were chosen as they are nearest and directly act on the CSR disclosure. The awareness about sustainability practices and reporting among Malaysian investors is still at a nascent stage, but it is growing fast (ACCA, 2014). Over the past few years, various efforts were given by the government to raise the commitment of Bursa Malaysia's companies in disclosure of CSR information. Although the disclosure rate has steadily risen since 1999, stated in the guidance to disclose and reporting in year 2013, however there is still lot of space for the improvement of it. Therefore, another factor to study on this title is because the relationship of the determinants and CSR disclosure should review and update due to the numerous changing internal and external factors.

### **1.3 Research Questions**

This research paper is aims to answer the following questions:

- i. What is the content of CSR disclosure in Bursa Malaysia's listed FMCG companies in consumer goods industry?
- ii. What are the determinants of CSR disclosure for the FMCG companies listed in the consumer goods industry of Bursa Malaysia?
- iii. Which determinants have the most influence towards the CSR disclosure of Bursa Malaysia's FMCG companies in the industry of consumer goods?

#### **1.4 Research Objectives**

Based on the research questions stated in the previous subchapter, the research objectives of this study were formed as below:

- i. To identify the CSR content disclosed by FMCG companies listed in the consumer goods industry of Bursa Malaysia.
- ii. To study on the determinants of CSR disclosure for the FMCG companies listed in the consumer goods industry of Bursa Malaysia.
- iii. To investigate the determinant that has the most influence towards the CSR disclosure of FMCG companies listed in the consumer goods industry of Bursa Malaysia.

#### **1.5 Scope, Limitation and Key Assumption of Study**

Scope of the research was set in Bursa Malaysia FMCG companies. The companies are selected as the target to be study in this paper due to the reason of FMCG companies directly affecting large scale of population since the depreciation of RM and implementation of GST in Malaysia. The limitation of this study could be the incomplete collection of annual reports from all listed FMCG companies of Bursa Malaysia. Perhaps there are some companies are not able to publish their annual reports before the period of data collection of this study. An assumption for this study could be the insufficient information in the annual reports due to the variation contents from each company, and there is no restricted and fixed standard of CSR disclosure format.

## **1.6 Importance of Study (Contributions/ Significant)**

Malaysia is still considered as a developing country. Since the implementation of GST in April of 2015 to help to gain extra revenue to the country, the FMCG companies needed to be focus as it is most direct in touch with national consumers. This is because a proper development in this industry can assist in achieving the Vision 2020. The worthy of this study is to further provide information to the FMCG companies so that their stakeholders and government deepen their understanding towards the extent of CSR disclosure specifically in their own industry. This study gives a big view on the characteristics of company in affecting the disclosure of CSR information in the report.

Not only that, this study also contributes to the existing theory of determinants of CSR disclosure. It also acts as a reference to the corporate partners such as management team, investors, suppliers and so on; and also enhancing their knowledge towards CSR disclosure in annual reports. This assists them in by provide accountability to their potential investors, shareholders, creditors and suppliers. Hence, it also helps a company to in business decision making such as brand positioning and branding strategy. Therefore this study aids in determine the variables that affect the degree of CSR disclosure so to understand which type of company willing to provide the highest transparency of CSR information to the stakeholders. This would bring the confident of them especially investors to support the company through the financial aspect. This study also important to the researcher itself so to deepening the understanding of marketing through the theory relevant to beautifying the brand image and improve the reputation of the company.

## **1.7 Summary**

In the sum of all, although CSR became a buzzword since the past decade in Malaysia, but still considered a lack of commitment from public listed companies to

the CSR activities. Thus the improvement on understanding the concept of CSR from public listed companies so that they know the importance and relationship of CSR to their business operations needed. The general objective of this study is to determine which variables affect the disclosure of CSR among FMCG companies. This is important to the corporate player so as to understand the structure and strategy of company and assists in making business decision.

## CHAPTER 2

### LITERATURE REVIEW

In this chapter contain 3 sections of subtopics. The first section will represent the theoretical foundation, which discussing the theories that will be used in this research. This section also describe the variables which to be reviewed in depth for the study. Meanwhile the third part of this chapter is the hypotheses to be stated.

#### **2.1 Theoretical/ Conceptual Foundation**

##### **2.1.1 CSR Overview**

Corporate Social Responsibility, as known as CSR, is became a hyped topic as it shrouded nowadays' business conferences and controversy. Assorted viewpoints were brought to the industries since there has no exactly definition and standard for companies to implement and measure. However, most of people think it is a responsibility bared by large companies which contribute to the environment or a community in the form of money or materials. According to Archie B. Carroll (1983), the definition of CSR stated as follow: