

Corporate Social Responsibility by Malaysian and Singapore Sustainable Index Companies

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Abstract

The main objective of this study is to investigate Corporate Social Responsibility (CSR) practices by listed companies in Malaysia and Singapore. These companies have been classified as sustainability index companies by the stock exchanges in those countries. Sustainability is a sister concept of CSR. The results of the study show the influence of the stock exchanges and government in business CSR initiatives. The second objective of this study is to suggest three variables, namely Government Link Companies, Reporting Website and Assurance Report, to mirror the recent changes in CSR practices. The results also show the significant influence of these three variables in explaining the current business CSR practice in two countries. Finally, the study also suggests that future research should employ third party CSR data, for the accuracy and reliability of the result.

Keywords: Corporate social responsibility, Sustainable index, Asia, Government linked companies, Assurance, Content analysis

1. Introduction

Earlier comparative studies found gap in CSR practices between companies in Malaysia and Singapore (Andrew, Gul, Guthrie, & Teoh, 1989; Chapple & Moon, 2005; Liang & Siang,

1988; Williams & Pei, 1999). They used CSR reporting in annual reports (Andrew et al., 1989; Batra, 2013; Liang & Siang, 1988), executive perceptions (Ramasamy & Tian, 2004) and the company's website (Chapple & Moon, 2005; Nordin, Abdullah, & Aziz, 2012; Williams & Pei, 1999) as a proxy for business CSR initiatives. Thus, the first objective of the study is to investigate whether the gap still exists, or whether any improvement has been made. This is because at that time there were no guidelines by the local institutions to guide businesses in their CSR practices. Local institution here refers to the stock exchange in each country. At that time, CSR practices were seen as business philanthropic actions under the managers' discretionary approval, i.e. they were voluntary in nature (Andrew et al., 1989; Liang & Siang, 1988). One of the popular mantras at that time was by the 2001 Nobel laureate in Economics, Milton Friedman, who said "*the business of businesses is business*" (Friedman, 1970). He associated business CSR initiatives as manager's philanthropic actions for political influence and "window dressing" activity, or "managements' impression".

However, today this focus on self-interest has changed. The stock exchanges want business to organise their CSR activity in a way that goes beyond philanthropic initiatives to new approach labelled as strategic initiatives. The exchanges suggested businesses can take advantage under new approach. The advantages are a rise in businesses' competitive advantage, ethical business practices and attracting ethical investment. Therefore the exchanges have referred to international guidelines, such as Global Reporting Initiative (GRI) and Sustainable Development Initiatives (SDI), in developing their CSR framework for businesses to follow.

The second objective of the study is to suggest three variables, namely, Government Link Company (GLC), the availability of CSR reports on company websites and Assurance of the CSR report. These variables use to mirror changes in CSR practice. For example, the government anticipates GLCs to undertake CSR more effectively so that it will influence other companies to follow, as the initiatives will positively contribute to business, society and state. Other than that, they can influence other non-GLCs to practise CSR (Hamid, Atan, & Saleh, 2014).

Other than these two objectives, another issue in prior research is the reliability of the instrument developed by researchers to measure business CSR initiatives that been disclose annual report or separate social report. The report is considered as a proxy for business CSR initiatives. To mitigate this problem, this study employs a third-party CSR performance rating by agency, namely CSRHub (Patala, Korpivaara, Jalkala, Kuitunen, & Soppe, 2017). The CSRHub aggregates CSR data from over 500 data sources, i.e. not only from business CSR reports as in prior studies. Thus, it provides a more holistic view of business CSR initiatives. Therefore we can have better accuracy and reliability of our analysis compared to earlier ones which depended on one data sources for their analysis. As posited on the company's website, "CSRHub is the world's largest sustainability business intelligence database. Our ratings and tools help professionals benchmark, evaluate, and improve company sustainability performance". The data used by the ethical fund managers as one of their sources of information for investment decisions.

This paper is organised as follows: the next section will discuss the earlier research in this area, and is then followed by the methodology of this study. After that come the results and discussion. The final section presents the summary of this study, its contribution, limitations and suggestions for future research.

2. Literature Review

This section review on literature relates to the two objectives of the study; first, on the prior comparative study and second, on the three proposed variables to mirror the current practices.

One of the earliest published studied was by Andrew et al. (1989) to the 119 of the listed companies located in Malaysia and Singapore. Their study did not make any comparison between countries. Their objective was to compare practices between companies in Western and English speaking countries. They argue that limited studies in Asian countries. They choose Malaysian and Singapore companies because of the availability of reports and because they are presented in English. By employ the 1983 annual report as a proxy for business CSR initiatives. They found that most of the reported initiatives were in human resources. They suggest the HR initiatives show the business legitimised their actions by following the government agenda on employee working conditions and welfare. By using a 1985 sample company's annual report, Liang & Siang (1988) conducted a comparative study to companies in both countries. Their sample consisted of 299 listed companies; 188 Malaysian companies and 115 Singapore companies. They found that Singapore companies (43% of sample companies) have disclosure, compared 31% of their counterparts). Further analysis on the individual theme, similar result as per as Andrew et al. (1989) study, which is human resources as the most of CSR activities done by companies in both countries.

A decade later, Williams (1999) conducted an empirical study on CSR practices by 356 selected companies from seven Asia-Pacific countries. Those countries are Australia, Singapore, Hong Kong, the Philippines, Thailand, Indonesia and Malaysia. The results from the parametric t-test shows that companies in Singapore, Thailand and Philippines have disclosed more social information compared to Hong Kong, Indonesian and Malaysian companies. However, the study did not provide details on the individual CSR theme done by the sample companies. Another international corporative study was by Batra (2013) on Indian, Singapore and Malaysian listed companies. By using the 2003 and 2004 annual reports, he found the Indian companies attain the highest degree of disclosure in both environmental and social activities compared to Singapore and Malaysian companies. Comparing the initiatives by Singapore and Malaysian companies shows that Singapore attains higher disclosure levels in environmental initiatives than Malaysia. For other initiatives there was no significant difference between companies in both countries.

The advent of internet in the late 1990s has led researchers to conduct research on the utilisation of technology for CSR reporting. It also known as internet social reporting (Williams & Pei, 1999). Williams and Pei (1999) conducted a comparative study between CSR information published on companies' website with their annual report. The sample consisted of 172 companies from Australia, Singapore, Hong Kong and Malaysia. The results show that companies in Australia and Singapore disclosed more social information on their

websites than Hong Kong and Malaysian companies. The result also support the earlier study's notion on the "social-political and economic structure of a nations" (Williams, 1999) that may influence business social initiatives. In term of individual theme, both Malaysian and Singapore companies disclosed more on human resource initiatives, followed by community initiatives. Six years after that (Williams & Pei, 1999), Chapple and Moon (2005) conducted studies on the leading companies in seven Asian countries. The result shows that Singapore companies CSR initiatives were slightly higher than Malaysian companies. The score was 38 % against 32% respectively on utilisation of websites for social reporting. In terms of the initiatives, the highest was in community initiatives. The difference in result compared to the prior study (Williams & Pei, 1999) is because of sample selections. But the justification for the differences is still the same, i.e. the national business system (Williams, 1999; Williams & Pei, 1999).

The second objective of this study is to investigate whether the three variables proposed are significant in determining business CSR initiatives. These variables are Government Link Company (GLC), Availability of CSR report on a company's website and Assurance of CSR report that may mirror the changes in business CSR practice in today's environment. The Organisation for Economic Co-operation and Development (OECD) defined SOE is a legal entity that undertakes commercial activities on behalf of an owner government. It is also synonymous with state-owned company, government business enterprise and GLC (OECD, 2014). A study by PwC shows that there was a significant increase in SOE in the Fortune 500 list of companies. It increased from 9% in 2005 to 23% in 2014 (Sturesson, McIntyre, & Jones, 2015). The main characteristic of CLC is that the government has the power to appoint top management and make major decision such as business directions. In Malaysia GLC is under the control of Ministry of Finance. The ministry incorporated a company, namely Khazanah Nasional Bhd to manage and monitor GLC. Similar incorporation happened in Singapore, where the company is called Temasek, controlled by the Singapore Ministry of Finance. With reference to CSR initiatives, in 2006, the CSR guidelines known as the "Silver Book" was introduced by Khazanah to Malaysia GLCs. The 'Silver Book" is a set of guidelines on how GLCs can contribute to state social and economic development. The government issued the guidelines because it wants GLC to lead and influence other businesses to follow the practice (Hamid et al., 2014). The government's directions are similar to CSR notion proposed by WBCSD. WBCSD suggests the new roles and responsibility of business in this twenty-first century has gone beyond the conventional business perspective. It defines CSR as "continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their" (WBCSD, 1999, p. 3).

There are no studies comparing GLC and non-GLC in both countries (Esa & Zahari, 2017). Most prior studies concentrate on GLCs only (Atan & Razali, 2013; Hamid et al., 2014; Rahman, Zain, & Al-Haj, 2011). Based on our limited reading, there is only one comparatives study of GLCs in two countries (Esa & Zahari, 2017). Esa and Zahari (2017) conducted a comparative study on the disclosure of CSR information on the websites of the GLCs in Malaysia and Singapore. The results show that there is no significant difference in statistical mean between the GLCs in both countries for their overall initiatives. However the difference

is only on the most CSR initiatives done by companies between countries. Malaysian GLCs concentrate more on Employee and Community initiatives, while Singapore focuses more on Environment and Product.

The second variable proposed is the availability of a business's social report on the company's website. In contrast to the above study, this study did not investigate details of social disclosure items on the website (Chapple & Moon, 2005; Esa & Zahari, 2017) or comparative analysis between information published on the website (Williams & Pei, 1999). This investigated the availability of CSR reports, not the content in the CSR report because this study used a third-party rating agency for the business social initiative (see further discussion in the methodology section).

The last variable is the assurance of the CSR report by independent third party assurance auditor (Jones & Jonas, 2011). The assurance service is assumed to be one of the solutions to overcome 'window dressing' issues in business CSR report. The assurance will reflect discharge of accountability by the business on the information publish in the report. This is because the CSR information stated in the report is validated by an external organisation (Jones & Jonas, 2011). Explicitly, it will enhance quality, credibility and reliability of the reported information. This will enhanced stakeholder confidence in business CSR initiatives. However, there is no mandatory requirement for the business in both countries to have it (Janggu, Sawani, Darus, & Zain, 2013; Jones & Jonas, 2011). So, businesses might change the assurator if the assurance report does not favour the companies. The is because currently the needs for the assurance of the CSR report by companies in Malaysia and Singapore more on voluntary initiatives by the companies to have their report be assured.

3. Research Method

The sample of this study consists of 60 public listed companies from Malaysia and Singapore. They are listed under the sustainability index from the respective exchange. In Malaysia, it has been labelled the FTSE4Good Bursa Malaysia Index and in Singapore as the SGX Sustainability Index. Their CSR data was taken on 31 January 2017, from the third-party rating agency CSR Hub. We use this data because the self-constructed CSR disclosure measures may not represent company's actual CSR performance (Patala et al., 2017) and it only based on a single data source, i.e. business CSR report.

Our argument supports the prior study (Atan & Razali, 2013; Esa & Ghazali, 2012; Rahman et al., 2011) on the issues of consistency and reliability of the data. For example, there are contradictory findings on the disclosure quantity found between studies by Atan and Razali (2013) and Rahman et al. (2011), compared to that by Esa and Ghazali (2012). The former found moderate increase, while later shown significant increase in business CSR initiatives by the sample companies in Malaysia. Further investigation found that the reason is because of the difference in measurement unit, Atan and Ghazali (2013) and Esa and Ghazali (2012) used self-constructed disclosure checklist, and Rahman et al., (2011) employed word as measurement unit.

The study investigated four related CSR themes, namely Employee, Community Environment and Governance. The CSR-hub data score is calculated on a percentage scale for individual CSR theme and total CSR theme. The four individual categories are further divided into 16 subcategories for the total score. The employee initiatives consist of compensation and benefits, diversity and labour rights, training, health and safety. The community initiatives consist of three subcategories namely community development and philanthropy, product and human right and supply chain. For environmental initiatives it consisted of Energy and Climate Change, Environmental Policy and Reporting, and Resource Management. Finally for governance it consists of board, leadership and Ethics, Transparency and Reporting.

As mentioned before, the measurement used for three suggested variables is dichotomous scores. The score either companies is GLC (the score of '1') or non-GLCs (the score of '0'); availability of CSR report or Sustainability Report on the business website (the score of '1') and '0' otherwise and lastly the assurance of the report (the score of '1') and '0' otherwise. The list of Malaysia GLCs for this study was taken from the Khazanah Website, while the list of Singapore GLCs was from Temasek Holdings Website, as of January 2017.

4. Result and Discussion

The result for descriptive statistics is shown in Table 1. The overall level of CSR initiatives by companies in both countries is between 39 to 66 percent. It shows improvement compared to a prior study three decades ago (Andrew et al., 1989) and a recent study (Esa & Zahari, 2017). None of companies have lower CSR initiatives. We define lower CSR initiatives if the total of business CSR initiatives is lower than one third of the overall score, i.e. below than 20 percent. Our assumption is supported by the mean amount in an individual CSR theme. Another assumption may be the presence of large and well-established companies, as all of them are in the sustainability index. This is because they have resources and infrastructure to undertake such initiatives. Another plausible explanation is companies' visibility, as they are subject to scrutiny by the exchange and by ethical fund managers.

Analysis from the individual themes shows that the employee initiatives attest the highest rank, followed by the environment, community and governance with the lowest rank. The result for the employee initiatives is parallel with most prior studies (Esa & Zahari, 2017; Liang & Siang, 1988; Williams & Pei, 1999). This is because employees play an important role in the profitability and survival of company. Thus, business has to ensure employees' right and benefits are properly addressed. On the other hand, for the second ranked item, it contradicts the earlier study. An earlier study ranked community as second most common initiative undertaken by companies (Williams & Pei, 1999). One possible explanation why environment initiatives were rank second, may be that the introduction of sustainable development practices by the government have influenced the sample companies' practices. The subcategories that relate to environmental initiatives are environmental conservation, energy and climate change as a result of business activities.

With reference to suggest variables, the result from Table 1 shows that the GLC represent 25 companies or 42 percent of the sample companies from both countries. For the second

suggested variable, it shows that almost half of all companies posted their CSR report on the website. However, for the third variable, out from 34 companies that published the report, only six reports are assured by the assurance auditor.

Table 1. Total CSR initiatives by sample companies and independent variables

Variables	Number of Companies	Minimum	Maximum	Mean	Std. Deviation
Country	60	0	1	0.5	0.504
CSR	60	39	66	54.08	6.713
Employee	60	23	70	56.28	9.338
Community	60	36	69	52.97	7.456
Environment	60	38	68	55.30	7.226
Governance	60	34	64	51.37	7.323
GLC	60	0	1	0.42	0.497
CSR	60	0	1	0.57	0.50
Assurance	60	0	1	0.2	0.403

The first objective of the study is to investigate whether there is still a gap in CSR practice by the companies in both countries. Table 2 shows there is a gap between Malaysia and Singapore companies of 55.87 and 52.30 percent respectively. The parametric t-test result shows that there is significant difference (95% confidence interval of the mean differences) in CSR practices between the two countries. Furthermore, for the variability of the reporting by companies, Singapore companies have slightly higher variability ($s = 7.188$) compared with Malaysian companies ($s = 4.3912$). The higher variability shows the gap is greater between lower reporting companies and higher reporting companies. The result was supported by minimum and maximum figures by companies in these countries.

We conducted further investigations on four CSR themes. Table 2 also shows that based on the mean result, Singapore companies' initiatives are more related to the environment, while in Malaysia they focus more on employees. Conversely, it is the same for the last ranking item by companies in both countries, which is governance. It may show that governance reporting only follows the minimum requirement suggested by the exchange in both countries.

Table 2. Comparative analysis of companies in Malaysia and Singapore

Items	Country	Minimum	Maximum	Mean	Std. Deviation
CSR Disclosure	Malaysia	47	64	55.87	4.392
	Singapore	39	66	52.30	7.188

Employee	Malaysia	42	70	59.83	7.428
	Singapore	23	70	52.73	9.805
Community	Malaysia	46	65	56.17	5.440
	Singapore	36	69	49.77	7.894
Environment	Malaysia	46	63	54.57	4.352
	Singapore	38	68	56.03	9.283
Governance	Malaysia	43	63	53.33	6.614
	Singapore	34	64	49.44	7.573

For the second research objective, we conducted the parametric t-test to the three proposed variables. The result in the Table 3 shows that GLCs play a significant role in business CSR initiatives in Singapore compared with their counterparts. For the availability of CSR report the Malaysian companies provide more reports on their websites compared to Singapore companies. But the result is still significant, and these indicated that internet communications are considered as a potential medium for the dissemination of businesses' CSR reports. As compared to prior studies, it shows an increasing trend of using this medium for reporting (Chapple & Moon, 2005; Williams & Pei, 1999). Finally for the Assurance of the report, the result is significant, in term small company that obtain assurance of their CSR report. Thus, more effort is needed by the stock exchanges to influence business to have assurance in their CSR report. This is because the assurance will help businesses in understanding and improving their CSR practices. As a result of that, it will enhance investor confidence in business CSR initiatives, particularly confidence among ethical fund manager. Businesses should change their mind-set on perceived costs was over benefits received from the needs of having it (Janggu et al., 2013).

Table 3. Independent T-Test for variables

Items	Country	F	t	Sig. (2 tail)
GLC	Malaysia	.265	1.904	0.067
	Singapore	.986	4.631	0.000*
CSR	Malaysia	.007	2.887	0.007*
	Singapore	.323	2.238	0.033*
Assurance	Malaysia	3.126	2.976	0.006*
	Singapore	0.055	3.344	0.002*

*significant at 5% confidence level

5. Conclusion

The result of the study shows the current change in CSR practice by companies in Malaysia and Singapore. The changes in practice by companies are happening because of the institutional involvement (i.e. the stock exchange) in guiding business in their CSR practices, such as by providing framework and recommendation for businesses. The stock exchanges postulate the benefits from the initiatives not only for the business, but also to the country in attracting ethical investor investment and finally to complement government effort in fulfilling its responsibility to the people.

Thus, this study expanding prior literature on the development of CSR initiatives that follows recent trends that more structure and lead by the country institutional institutions. Even though the study found significant differences between Malaysian and Singapore companies in their CSR initiatives, the difference is minimal, i.e. more than twenty percent of the overall initiatives, compared to a prior study the minimum amount is zero. The second contribution of the study is on the three suggested variables. One of the variables shows the need for assurance of the report particularly by index companies, as it will increase investor and other users' confidence in the report. It is important especially for the business's social performance and its risk management, as the duo is related to business social, ethical, environmental and governance of business. The final contribution of the study is to suggest the use of third-party data, for the accuracy and reliability of the result.

Clearly, all research studies have limitations that may have an adverse impact on the conclusions drawn from them. Therefore, we would like to suggest that future research should investigate further the reasons for lower reporting assurance by companies via qualitative research methodology, for example, by interviewing companies on the factors that influenced them to do it or not.

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