Corporate social responsibility and analysts coverage in Malaysia

By

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ABSTRAK

Menggunakan beberapa firma Malaysia yang tersenarai awam lebih satu tahun, kajian ini datang untuk menyiasat kesan korporat tanggungjawab sosial (CSR) pada cadangan penganalisis keselamatan. Penyelidik dan pengamal telah menumpukan perhatian kepada dasar firma mengenai pendedahan budi bicara. Kajian sebelum berhujah bahawa firma-firma meningkatkan permintaan untuk hutang dan terbitan ekuiti mereka dan oleh itu, mengurangkan kos modal mereka, dengan menyediakan lebih banyak pendedahan maklumat. Secara amnya, firma yang bertanggungjawab secara sosial menerima cadangan yang lebih baik pada tahun-tahun kebelakangan ini berbanding dengan yang terdahulu, mendokumentasikan perubahan persepsi nilai strategi tersebut oleh penganalisis liputan di Amerika Syarikat dan Eropah sebagai contoh. Untuk kajian ini, Menggunakan 123 Malaysia tersenarai awam firma mendapati bahawa terdapat bukan bererti hubungan antara tanggungjawab sosial korporat terhadap cadangan penganalisis liputan di Malaysia. Salah satu daripada sebab-sebab di sebalik keputusan ini, saya fikir ia milik bahawa syarikat mempunyai insentif untuk melibatkan diri dalam pengurusan pihak berkepentingan dengan menjalankan aktiviti tanggungjawab sosial dan memberikan pendedahan yang luas dan bermaklumat adalah salah satu amalan itu.

ABSTARCT

Using a number of publicly listed Malaysian firms over one year, this study come to investigate the impact of corporate socially responsible (CSR) on security analysts' recommendations. Researchers and practitioners have devoted considerable attention to firms' policies regarding discretionary disclosures. Prior studies argue that firms increase demand for their debt and equity issues and, thus, lower their cost of capital, by providing more informative disclosures. In general, socially responsible firms receive more favorable recommendations in recent years relative to earlier ones, documenting a changing perception of the value of such strategies by the coverage analysts in USA and Europe for example. For this study, Using a 123 Malaysian public listed firms found that there is non-significant relation between corporate social responsibilities towards the coverage analysts recommendations in Malaysia. One of the reasons behind this result, I think it belong to that companies have incentives to engage in stakeholder management by undertaking socially responsible activities and that providing extensive and informative disclosures is one such practice.

CHAPTER ONE

1.1 Introduction

In recent years, there has been a growing interest, both in the academic as well as the business world, around the issue of Corporate Social Performance (CSP) - a multidimensional measure (Carroll, 1991; Griffin and Mahon, 1997) of corporate social responsibility (CSR) that captures firm actions aimed at engaging a broader set of stakeholders and ranging across a wide variety of inputs, internal routines or processes, and outputs (Waddock and Graves, 1997; Wood, 1991; Aupperle et al., 1985; Wolfe and Aupperle, 1991; Aupperle, 1991; Miles, 1987; Gephart, 1991). Perhaps the most studied aspect of CSR has been its (potential) link to Corporate Financial Performance (CFP). Much work has focused on understanding this link and a number of theoretical insights and empirical findings have been revealed in the process. Different theories predict conflicting directionality and a number of empirical studies have found inconsistent results.

In this thesis I want to focus on the broader issue of whether CSR strategies result in value creation and to do so, have to focus too on the role of analysts coverage as important information intermediaries, functioning at the interface between the firms' CSR strategies and the capital markets. The all argument of this thesis is that if socially responsible behavior creates value for firms in the long-run, then such value creation will be reflected in the investment recommendations of the analysts. To be more specific, in this analysis I evaluate the overall impact of CSR strengths and concerns on coverage analysts' recommendations, and subsequently, I investigate how analysts' as well as characteristics interact with CSR information to impact analysts' perceptions of value creation and therefore, impact their recommendations. This thesis reveals theoretical insights by merging theory on CSR with an extensive line of work from accounting and finance on the important role of coverage analysts in capital markets.

Previously, scholars within the neoclassical economics tradition argued theoretically that CSR strategies unnecessarily raise a firm's costs, thus creating competitive disadvantage against competitors (Friedman, 1970; Aupperle et al., 1985; McWilliams and Siegel, 1997; Jensen, 2002). Arguing from an agency theory perspective (Jensen and Meckling, 1976) other studies have suggested that employing valuable firm resources for positive social performance strategies results in significant managerial benefits rather than financial benefits to shareholders (Brammer and Millington, 2008).

Another theoretical stream, stakeholder theory, emphasizes that effective management of stakeholder relationships, the fundamental blocks of CSR, may also result in better financial performance. They argue that identifying and managing ties with key stakeholders may mitigate the likelihood of negative regulatory, legislative or fiscal action (Freeman, 1984; Berman et al., 1999; Hillman and Keim, 2001), attract socially conscious consumers (Hillman and Keim, 2001) or even attract financial resources from socially responsive investors (Kapstein, 2001). In addition, stakeholder management theories suggest that CSR strategies may lead to better performance by protecting and enhancing corporate reputation (Fombrun and Shanley, 1990; Fombrun, 2005; Freeman et al., 2007). Finally, a substantial number of studies within the resource-based view of the firm argue for the mechanisms through which socially responsible behavior may lead to competitive advantage (Hart, 1995; Litz, 1996; Rugman and Verbeke, 1998).

Thus, I specifically seek to understand how social performance ratings impact coverage analysts' recommendations. In other words, focus on a specific in which how CSR information flows from firms towards capital markets and also, investigate the potential perception of value creation (or destruction) on information intermediaries. The role of security analysts as crucial information intermediaries in public equity markets (Healy and Palepu, 2001) their ability to substantially affect the price and the trading volume of a firm's stock (Stickel 1995; Womack, 1996). Importantly, prior studies have documented that analysts' expectations of the future value of the firm, are also a good proxy for the overall equity holders' expectations around the firms' future value (Fried and Givoly, 1982).

1.2 Stakeholder model

The interest of each party is an internal or external to the organization and is responsible for the good management of this institution. Theory of stakeholder institution is the product of a different relationship between a group of stakeholders are not only shareholders, but rather all those interested in the activities and decisions of the institution, and can distinguish between the first type of stakeholders, and who have a direct relationship to economic activity and have a apparent contract with the company such as: shareholders, banks, employees, customers, suppliers.

And the second type of stakeholders (stakeholders of the second degree) of any Secondary are the ones who are involved with, whether voluntary or not with the established in the framework of a non-Table contractual, non-institutions such as corporations and the protection of the environment.

Table illustrates the pro stakeholders and the most important goals

Stakeholders in the organization and their goals

Stakeholder	Objectives
Senior management	Governance, corporate culture, strategies, efficiency and performance
Shareholders	Profit, the value of the stock in the stock market
Customers	Characteristics of the product, quality of service, a culture of customer
Government	Security of the society, sovereignty, respect for the laws, paying taxes
Community	Environmental and social effects, payment of fees, the financial contribution
Workers	Pay, job security, working conditions, job satisfaction

Suppliers	Price and volume of procurement, sustainability, partnership
Banks	Payment systems and their flexibility, the possibility of lending
Investors	Information about the liquidity and viability of payment
Insurance companies	The level of cooperation with the institution in the field of insurance

The difference between the traditional models

What is meant here is the difference between stockholder model and shareholder model in term of their benefits. While shareholder model seek to maximize the shareholder's share, the stockholder model seek to balance the benefits to all parties.

1.3 Corporate Social Responsibility in Malaysia PLCs

As the Prime Minister mentioned in the 2006 budget speech, from now on, all PLCs are required to disclose their CSR activities.(Malaysia, 2006).so we can clearly say that corporate social responsibility starts to be as a part of financial discloser in Malaysia since 2006. What does this mean for the environment of business in Malaysia?I think, when the prime minister of Malaysia emphasis that all public listed companies to disclose their CSR activities this mean to encourage Malaysian PLCs to become more engaged in being socially responsible, and to make the way they approach the process of CSR, part of the way they normally work and think.(Malaysia, 2006).

The question is: does corporate social responsibility means to spend money on social services in Malaysia only? Do the PLCs in Malaysia will achieve its goal in just spending money? The corporate social responsibility means to make money also. Bursa Malaysia has defined corporate social responsibility as open and transparent business practices that are based on ethical values and respect for the community, employees, the environment, shareholders and other stakeholders (Malaysia, 2006). When I look to the definition, I can see that BURSA MALAYSIA want PLCs to work based on long-term bilateral benefits relationship between companies and Malaysian community.

As new thinking towards the philosophy of our existing on this planet it take places came as a result from issues of global concern such as financial stability and governance as well as climate change, poverty and the spread of infectious diseases, continuing scandals over product responsibility and widespread corruption, the need for business to take the lead in developing improved corporate social responsibility strategies for their business operations has never been more apparent(Uriarte Jr & Uriarte Jr, 2008). The role of private section business in the carrying some responsibility towards the community is one of these revolutionary ideas for recently time.

But is it that easy for a company listed in bursa Malaysia or in any other public listed company in any country to decide that we will start SR this year for example? The answer is no. because there are many factors or variables could affect such a kind of decision. There are external variables such as:

shareholders, investors, analyst coverage and government and internal variables such as: agency theory, institutional investors and corporate governance. With all these interrelated conflicting interests can a company to contribute a useful role to the community with achieving benefits to the company on the long-term future? The value of money it was never that piece of paper (cash), otherwise any country can print out as much as she want of cash, but it is that kind of perfect job where the human being, machine, land, tired and time are all working together to produce some useful product, for this no human on this planet would like to spend money without return. Therefore, CSR it is not only spending money but how a firm makes money.(Malaysia, 2006).

It has been approved that there are a potential benefits associated with the initiation of voluntary discloser of corporate social responsibility activities could lead to reduce the firm's cost of equity capital (Dhaliwal, Li, Tsang, & Yang, 2011). Further, initiating firm with solid belief and real practice of social responsibility devoted to institutional investors and analyst coverage.

One of the issues that BURSA MALAYSIA was concern about it since 2006 is environment in general and how to maintain the energy resources, reduce the harmful effect such chemicals gas on climate specifically through applying the corporate social responsibility especially in the huge companies (Malaysia, 2006).

A strong evidence been approved, that there is a significant stock price reaction to the announcement of analysts' recommendations(Dhiensiri & Sayrak, 2010). Consequently, to specify the relation between analyst coverage and corporate social responsibility and what kind of relation between them whether it is one way or two-way, for this actually, there are many factors or variables also plus coverage analyst could affect on CSR and analyst coverage itself by indirect & direct way. And I'm going to review them in details through chapter 3(literature review).

1.4 Problem Statement

Based on the CSR concept, firms have to take responsibility for not only the financial bottom line, but also for other interested stakeholders such as the community and regulatory interests (Norman & MacDonald, 2004). Literature on individual greed and financially driven unethical practices (Adelphia, Enron, Hewlett Packard, and Tyco) provides support for the need to conduct further studies on social responsibility.

The problem is, there is little evidence on whether corporate social responsibility approach actually has impact on the recommendations of the analyst coverage or the report been issued from him. Many leaders recognize the need for a multiple-stakeholder focus, but have little evidence to consider as they lead their organizations to satisfy baseline expectations associated with corporate social responsibility (Mackey, Mackey, & T. B. & Barney, 2007; Waddock, Bodwell, & Graves, 2002). This lack of knowledge about the phenomenon provokes the need for this study to provide more evidence on how adopting corporate social responsibility business approach can enhance the company’s image, and therefore enhance analyst coverage recommendations.

Corporate Social Responsibility (CSR) has emerged in recent years as an important issue for both an academic construct and a pressing item on the corporate agenda (Sen & Bhattacharya, 2001; Harrison & Freeman, 1999). An increasing number of companies are embracing the concept of CSR and are provoking the need to clarify what it actually means. CSR actions are increasingly becoming a main issue in business, with companies taking a variety of initiatives all aimed to clarify the meaning of CSR (Cramer, Jonker, & Heijden, 2004).One reason for the growing interest in CSR is because of its influence on organization performance since in recent years are demanding more out of organizations than simply a quality product at a low price (Bhattacharya & Sen, 2004). Consumers expect organizations to match some of their social values as part of their contribution to the community (Maignan, Ferrell, & Ferrell, 2005). Coverage analyst can then choose to evaluate a company based on whether the organization acts in a manner consistent with supporting the welfare of the community and society. The purpose of the present study is to investigate the relationship between corporate social responsibility (CSR) and coverage analyst. This study adopts the principle agent theory as a base to describe the behavioral influence and the process in which this kind behavior enhances coverage analyst recommendations.

1.5 Research Questions

This study intended to analyze the effect of corporate social responsibility, on accuracy of analysts coverage in public listed companies. At the end of this study, the readers understand the explanatory power of variable factors analyzed in this paper. In order to do so, this paper developed a research question as guidance as in achieving the purpose of this paper:

1. What is the relationship between corporate social responsibility disclosure and analysts coverage?

1.6 Research Objective

The general objective of this paper is primarily to study the effect of corporate social responsibility on the coverage analysts' recommendations in public listed firms. Specifically, the objective of this paper is to examine the significance of corporate social responsibility practice on coverage analysts report.

1.7 Significance of the Study

The duty of analysts coverage is to issue comprehensive report shows all the information about the company. This report is an important key to enhance the investors confident to invest in this or that company. Corporate social Responsibility became important information that can be attractive to the investors. Furthermore, to relate between the analysts coverage and CSR, this study includes four control variables such as Forecast Horizon, Managerial Ownership,

CHAPTER TWO

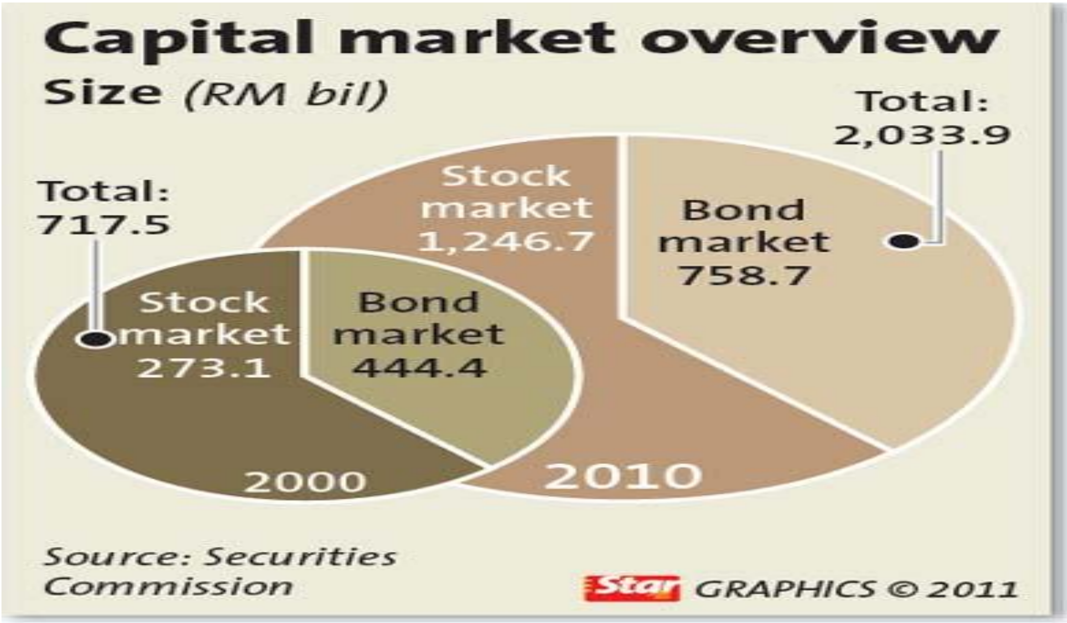
Institutional Background

2.1 Introduction

Availability of stock securities, which began in 1973, a central market place for buyers and sellers for the implementation of the business, guarantees and equity securities, fixed income and many other securities of listed companies. The product range also includes derivative contracts and optional futures and securities multilateral foreign currencies that are dealing in the exchange derivatives and foreign exchange, respectively.

Bursa Malaysia is today one of the largest bourses in Asia, including nearly 1000 listed company offers a wide range of investment options. Companies are either listed on the main board of the Securities Exchange in Malaysia for companies with large capital or on the board of the second medium-sized companies or market Misdak companies and fast-growing technology companies.

Malaysia's capital market crossed the RM2 trillion thresholds for the first time ever as at end-2010, said Securities Commission (SC) chairman Tan Sri Zarinah Anwar.



This graph been taken from Star News.

The graph up there as been announced from SC Malaysia chairman Tan Sri Zarinah presents the distribution of debt market (stock & bond) with comparing between 2000 and 2010. As we see, the size of capital market for 2000 was 717.5 billion, reach to 2.033 trillion in 2010. Actually this is a huge growth during ten years, talking about 1300 billion increase. After the financial crises in Malaysia from 1997/1998 – the losses were estimated by 60 billion – had to be on the Malaysian government to take and do many actions, efforts and regulations to enhance and reframe work the capital market to achieve and attract investors.

2.2 Malaysia Capital Market

Treatment of Malaysian financial market starts in the time of Prime Minister Mahathir in 1997. After financial crisis, the government decreased its subsidies to the politically connected firms and firing the deputy prime minister. These initially steps lead and enhance capital control in September 1998. The result was making benefits by 5 billion gain in market value, and it shows which firms are deserved to be supported(Johnson & Mitton, 2003).

After financial crisis, three countries (Thailand, South Korea, and Indonesia) strongly seek for help from international monetary fund (IMF) consequently; these three countries have no choice but to follow the IMF's plan to boost the economy of these countries. This plan was based-fiscal policy, which includes; float their exchange rates, raise interest rates, open up their financial markets to foreigners, close troubled banks and financial institutions. Based on This policy, IMF forced these three countries to perform which resulted huge economy destruction on the long term. Even some one said (Michael M. Hutchison, 2003) described the IMF's plan "a cure worse than the disease".

Also there is an issue which is an important to mention it here and it was a key later to develop the market, it was found that sockbroking companies during the financial crisis in 1997-1998 in Malaysia with insufficient capitalization, poor risk management capabilities, and have difficulties in managing the consequences of the crisis. To settle this failure, KLSE was developed a set of restrictions and requirements for stockbrokers as follow:

- Paid-up capital of more than RM20 million;
- Minimum liquid assets of RM500, 000 or 5 percent

of aggregate debt, whichever is larger; and

• Restrictions on single customer or single securities.

Based on the above, Malaysia it took another path to extricate itself from drowning, and this path was different from the method followed by the rest of Southeast Asia countries by practicing more control on capital account transactions, fixed the change rate, cut interest rate and embarked on a policy of reflation. These procedures lead to not overburdening the Malaysian people with more debt and debt interest for long periods. Adding to that, the great job has been done by issuing the capital market masterplan(CMP). This plan was released in 2001 to develop and enhance what is called the Malaysian corporate governance agenda. CMP is contains 152 recommendations, working on development the institutional and regulatory framework for the capital market based long-term from 2001 to 2010.(Low, 2000).

the master plan for the Malaysian capital market emphases that its capital market must be able on the long term to compete internationally by efficiently provide a mechanism to mobilise and allocate funds supported by strong regulatory framework(Commission, 2001). Taking into account that all challenges and trends that have kind of mutual influence with outside markets such as; maintaining as can as possible the market stability, integrity and of course after all consistency with national needs or by other words national priorities. As a result of the previous improvements adding to that, computerized trading, a central depository, and efficient clearing and settlement systems leads to reviewed regulatory framework to promote initial public offering (IPO) and equity investments by domestics and foreigners. These procedures encourage some companies like Malaysia telecom company and Tenaga Nasional Berhad (TNB) to be listed on the KLSE making it the fastest- growing market in the south-east Asia in 1990s.

Government played a vital role to enhance market infrastructure by introducing a various measures and develop an appropriate regulatory framework, adding to that establishment of a credit rating agency. At the same time corporate entities seeks to obtain funds from the capital market and banks to improve their financial assets. The Infrastructure of the stock market may be developed but transparency, disclosure, and corporate governance needs to improve(Shimomoto, 1999). I will talk in further details under the point of corporate governance.

2.3 Corporate Social Responsibility and environment in Malaysia

Poor disposal of human and the increasing encroachment on the environment make it at a disadvantage in terms of health, economic, and environmental pollution taking the man himself suffers from these problems. Accordingly, the growing interest in the last decade of this century the problem of pollution of the environment and how to protect and preserve it as increased rates of environmental pollution resulting from industrial development, which results In demand community and environmental organizations and the laws of some states to protect the environment to the claim that acting companies in a way more responsible.

A study has shown (Richardson & Welker, 2001) that the disclosure of social influences on the cost of capital as the successful companies that disclose more information social and environmental reduce the degree of asymmetry of information between investors and the company, which leads to increased liquidity in the market securities and increase the demand for the company's shares and bonds, which leads to reduced cost of operations, leading to lower cost of capital.

It seems from the above study that when companies go further towards their responsibilities to the environment this will reflect positively on the long term survival of companies. An international survey done by PricewaterhouseCoopers in beginning of 2002 found that 70% of chief executives in the whole world believed that focusing and practicing corporate social responsibility was vital to their companies profitability(Simms, 2002).

Corporate social responsibility has been defined as "the integration of business operations and values whereby the interests of all stakeholders, including customers, employees, investors, and the environment are reflected in the organization's policies and actions"(Smith, 2002,). Also it been defined as: "the obligation of the firm to use its resources in ways to benefit society, through committed participation as a member of society, taking into account the society at large, and improving welfare of society at large independently of direct gains of the company"(Kok, 2001,).there are more definitions of CSR, all of them emphases on taking into account the social and environmental impact of corporate activity when making decisions.

The concern for the environment by business organizations has become very necessary in any country. With the increasing number of population and fixed sized of resources while the business sectors are the exploiter or the major user of resources, it is the responsibility of the companies that does not have its negative lead to the loss of natural resources slowly but should play a role in the creation of new resources and new sources of energy through the establishment of research centers(R & D) owned by companies (private sector) and to be financed by companies itself.

Some might say that research centers(R&D), costing the company huge amounts of money and this will reduce profits, BUT this would not be on the very long term, many companies around the world, which has research centers and pay huge expenses, resulted in the end managed technology solution, e.g. use of nuclear energy for peaceful purposes, which resulted in the provision of massive amounts of natural energy sources like oil, as well as the use of wind and water power and solar energy and converting it into optical cells. All this led to significantly reduce costs later and increase profits because the costs of these sources (natural sources) are cheaper compared with oil prices for example, also resulted in the prolongation of corporate life because it was able to secure and sustain for itself the sources of energy will not end like the solar energy, leading to give high confidence to the investors, for the future of this company and consequently, to invest in it which would provide enough cash to the company to be able to expand and increase its market share. This scenario is not imaginary but very realistic in a U.S.A an electricity company has been able to provide electrical energy for lighting and uses of plants for a whole city using wind energy only. So, sustainability of business does not come from profit only,

Achieving sustainability in the business do not always come by following the conventional methods such as kill costs or reducing the number of workers. Such actions may have negative results as methods to solve problems in a sudden and can be delivered from drowning for a limited period. So I think that our thinking must go away to the roots to nature because it is the real source of life, it embraces in it all the resources we need, but this does not mean that use it selfishly. From this point I would like to go to another point is how to convince the community and this community, of course, includes domestic and overseas investors, that we apply the policy of preserving the environment to make them rest assured that we will not be exposed to economic sanctions in the future which will lead to the weakening of demand at buying shares of our company and thus lower prices and bring losses, In particular, and we know that there are international organizations in everywhere in the world to take care of the environment and they publish reports for all those companies engaged in activities harmful to the environment. That is why we have to disclose environmental report included our financial reports in what it is called environmental l discloser.

American Accounting Association has defined accounting as: "the process of identifying, measuring and delivery of economic information can be used in the process of evaluation and decision-making by users of such information". From this definition seems clear that the accounting has two functions:

the measurement and disclosure of the accounting function of the information contained in the reports and financial statements. As is known, the accounting knowledge as a part of the social sciences affects the environment and affected by, so it is assumed that accounting functions are affected by environmental change, and where the planet almost was free of contaminants before the industrial revolution and the huge advances in manufacturing technology, the function of accounting disclosure at the time was focused on the information that can be measured.

On the other hand, the operations of companies operating in the activities of a negative impact on the environment may expose it to legal accountability, resulting in contingent liabilities represented by the costs to remove the pollution from their activities, which is reflected in the profits or the financial position, which is what matters stakeholders. So professional firms (auditing and accounting) have its responsibilities by issuing standards, requiring companies to disclose information on the activities of the company which have a negative impact on the environment which is called the disclosure mandatory, as issued by the complex of Chartered Accountants of the U.S. list of statement No. (96-1), which dealt with environmental commitments and environmental losses explicitly the disclosers provided for urging the companies to disclose information that is not binding but are optional because of their impact on the decision maker of the so-called selective disclosure. A study been conducted by (ahmad jun, 2003) shown factors that motivate listed companies on bursa Malaysia stock exchange about selective disclosure of environmental annual reports, the study has extrapolated contributions of previous studies on the determinants of selective disclosure of environmental study has tested several hypothesis :

1. The larger-sized companies are more likely to voluntary disclose environmental information than small-sized companies.

2. Companies with low leverage are more likely to disclose voluntary for environment information than companies with high leverage.

3. Companies with high profitability are more likely to voluntarily disclose for environmental information than the companies with low profitability.

4. Companies with high level of effective tax rates are more likely to voluntarily disclose environmental information than the companies with a low level of effective tax rates.

5. Where companies belonging to environmentally sensitive industry to be more inclined to voluntarily disclosure of environmental information in annual report for companies that do not belong to this type of industry.

6. Companies that are audited by a member company of the five major accounting firms Big5 are more likely to voluntarily disclose for environmental information in annual reports than the companies that are not audited by a member company of the five largest audit firms Big5.

The results indicated that only accept the imposition of the second and fifth in the sense that only those two assumptions can affect on voluntarily environmental disclosure.

Institutional investors in many countries appear as an organized & integral power in the equity market and they use this power to lead companies to adopt and take long-term decisions that can contribute for the community benefit –

corporate social responsibility in the full sense where they operate. The possible reason for that institutional investors are interested in the long-term cash flows of their investment which consequently, are increasingly linked to good CSR performance. And of course when companies perform and behave in socially responsibility it doesn't mean that only to benefits the society but also to leads business towards stability and success based on long run by assuring customer loyalty(Reichheld, 2001.)

As we know that the institutional investors have the biggest share or the highest percentage of the total quoted business, in other words they are the majority owners. Based on this truth, institutional investors have a power and authority to reduce the influence of principal-agent problems by align the interests of shareholders with minority or other small shareholders for example, employees, customers, suppliers, environment and the whole society because they have power request corporate executives to include social and environment guideline in their business objectives (Sparkes, 2004).

Malaysia is a developing country and still faces environmental problems such deforestation, erosion, pollution, and increasing needs of energy with energy consumption from 1971 to 2004 increase by 850% and this percentage is expected to increase(Mohd Aini & Sayce, 2010). Malaysia also have problem with rising of CO_2 emission come from the impact of energy on climate change. Water shortage is another problem faced by Malaysia which is result of increasing number of new building especially in the big cities. But is it enough to make announcement by public listed companies in Malaysia saying that we are going to adopt and activate CSR through our decisions? of course no. Need to approve your attention or rather make it officially must disclosed it in the ?

Now many countries around the world disclose corporate social responsibility because it has been required from these countries' governments itself and Malaysia is one of them. In 2007, The Prime Minister of Malaysia announced that all companies listed on the Malaysia stock exchange would be required to disclose information on CSR activities in their annual financial report (Mohd Aini & Sayce, 2010).

It seems that the level of environmental disclosure affected directly by the extent of experience of the investor the good reader to the financial statements since such investor will put pressure on the Administration to expand the disclosure of environmental information, also the culture of the people are putting pressure on corporate management to preserve the environment and as long as these companies committed to maintain the environment as a result of these pressures as long as disclosed on the extent of their commitment. In Malaysia, environmental discloser still voluntary(Haslinda, Normahiran, & Noraini, 2005). The environmental reporting in Malaysia still in the beginning with no accounting or auditing standards dedicated to reporting of environmental issues in the final financial statements of companies

CHAPTER THREE

LITERATURE REVIEW

3.1 Introduction

This chapter will present the previous studies has been undertaken. As such, this chapter will give an overview of literature on The old concept of business until now was focusing on achieving profit or even high profit to the firm by recognizing the expediters or as been called accountability killing cost. But this concept belongs to the internal environment of the firm, while the world of today successfully business must also or take care of external environment of the business. External environment of business includes people and the nature and this one means maintain healthy nature and maximize using of natural resources.CSR is presenting the external environment.

3.2 Defining CSR

There are several definitions of corporate social responsibility (CSR). Morrison starts by defining the concept of ‘‘social responsibility’’: ‘‘social responsibility refers to a group of related issues, including human rights, human development and environmental protection (‘green’) issues’’. This author goes from ‘‘social responsibility’’ to ‘‘corporate social responsibility’’ by stating that the social issues just mentioned, in the past, were ‘‘seen as public policy matters falling within the ambit of governments’’ and ‘‘so long as businesses adhered to existing legal obligations, they were free to focus on the ‘‘bottom line’’, that is, profits and shareholder value’’. However, ‘‘this simplistic view’’ separating businesses from social responsibility has become ‘‘outdated’’ by the general recognition that as an employer and producer a company has a determinant role to play in society (Morrison, 2002). The European Commission’s Green Paper brings out in its definition of CSR the facts that these are initiatives go beyond the legal requirements: CSR is a ‘‘concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment’’ (European Commission Green Paper, 2001). Other definitions bring forward the importance of other stakeholders besides shareholders: ‘‘CSR is the acknowledgement by companies that they should be accountable not only for their financial performance’’ (Lom, 2005).

The relationship between business and society is a never ending story and it is close and undeniably linked to CSR. Actually, there has been a long-running some kind of split between those who perceive the primary purpose of the firm to be the maximization of economic value to shareholders versus those who believe firms owe a broader duty to society and non-economic stakeholders. As we know the old argue to any business is ‘‘the primary goal of the firm is to maximize profit over the long term’’, but this does not mean that profit is the soul of the company or the motivation behind creativity, the desire to make deference in the world. The common definition set as a target (maximization of profit margin, return on sales or return on equity. But this definition will lead to distortions as managers will influence certain variables in order to achieve the best result on that set target.