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CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE IN MALAYSIA: AN ANALYSIS OF ANNUAL REPORTS OF KLSE LISTED COMPANIES*

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ABSTRACT

Our paper focuses on corporate social responsibility (CSR) disclosures made by 98 listed companies, across industries. Content analysis methodology was used. The purpose of our study is to examine the incidence of CSR disclosures in annual reports. Studies on CSR disclosures in developing countries are limited and in the case of Malaysia, the most recent published studies on CSR were in the eighties. The present study fills this gap in the literature. The sample selected comprises a representative cross-section of the industrial sectors in the Main Board of the KLSE. Previous studies have used *ad-hoc* samples, which limits the generalizability of the findings. Findings from the study suggest that the disclosures have a public-relations bias, with a very general, 'good news' type of disclosures being the norm. Consistent with prior studies in other developing countries, quantitative or monetary disclosures, as well as 'bad news' disclosures are minimal.

Key words: Corporate social responsibility disclosures, Content analysis, annual reports

JEL classifications: M0, M14

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1. INTRODUCTION

Over the past decade, Malaysia has witnessed tremendous economic and social changes. As a result, the business environment is also becoming more complex and demanding. One of the emerging issues that confronts modern-day businesses is that of corporate social responsibility. Due to the heightened interest in the concept of corporate social responsibility and what it entails, much research has been done in this area, particularly in the developed countries. In contrast, the developing countries are slower in responding to the increased concern about the issue of corporate social responsibility. Despite some increase in research (see for example, Abu-Baker and Naser, 2000; Belal, 2001; Imam, 2000; and Tsang, 1998), studies in this area in the developing countries are still scarce.

The present paper will focus on corporate social responsibility (CSR) disclosures in company annual reports. Though research on CSR disclosures in the developed nations is abundant, the same is not true of the developing countries, particularly Malaysia. The most recent published studies done in the Malaysian context are the works of Teoh and Thong (1984) and Andrew et al. (1989). However, Malaysia has undergone tremendous social and economic changes since then. Consequently, the findings of Teoh and Thong (1984) and Andrew et al. (1989) may now be outdated.

The public now appears to be more concerned with the adverse impact of businesses on society. In fact, the recent emergence of various NGOs and environmental pressure groups in Malaysia suggests that stakeholders are concerned with the manner in which businesses are responding to social responsibility concerns. Accordingly, businesses wishing to respond to this increased public concern about CSR may use the annual report as a means of communication. Consequently, as businesses respond to these changes in societal values, one may expect the nature, content and amount of CSR disclosures to be very much different now. Also, in Malaysia, there are presently no accounting standards for disclosing CSR information. In the absence of such standards, CSR disclosures in Malaysia would be entirely voluntary in nature. Thus, companies have full discretion as to annual report disclosure. It is feared that this lack of standards may mean that any existing CSR disclosures will be very much public-relations oriented. It is, therefore, the purpose of the present study to document evidence of current CSR disclosure in Malaysia, including the nature and type of such disclosures.

The present study attempts to examine the nature and extent of CSR disclosures in the annual reports of selected Malaysian companies. This paper seeks to contribute to the literature by reviewing and documenting CSR disclosures of a relatively large sample of Malaysian companies in a more recent time period (compared to previous Malaysian studies). The present study will also extend the literature as no recent studies in the area have been published on Malaysia. It represents a first attempt at a content analysis of annual reports of Malaysian companies. As mentioned earlier, the sample used for the study comprises a cross-section of the largest 200 companies listed on the main-board of the Kuala Lumpur Stock Exchange (KLSE). This would be a meaningful contribution given that similar studies on social disclosures have used *ad-hoc*¹ samples, which limits the generalizability of the findings (see for example, Andrew et al., 1989; Neu, Wasame and Pedwell, 1998; and Tsang, 1998). Furthermore, this cross-sectional study will allow for inter-industry comparisons, which, with an ad-hoc sample, would not have been possible. It would be interesting to find out if companies are inclined to emphasize CSR disclosures in particular content-category themes, depending on their industry sector. For example, one may expect companies in the construction, industrial and consumer products sectors to have more disclosures on the environment. On the other hand, companies in the banking and finance industry, for example, may have minimal environment-related disclosures. Instead, such industries may focus on human resources and community involvement. The findings of this study may also be relevant to the Malaysian Accounting Standards Board (MASB) in its decision to introduce an accounting standard in the area of CSR disclosures.

More specifically, the objectives of the present study are as follows:

- To examine the CSR disclosure practices of a sample of KLSE listed companies, across different industries;
- To examine the content-category themes of CSR disclosures, i.e., environment, energy, human resources, products/consumers, community involvement and others;
- To examine the methods used for CSR disclosures, i.e. monetary, non-monetary-quantitative and declarative;
- To examine the news-type of CSR disclosures, i.e., ‘good news’, ‘bad news’ or neutral;
- To determine the location of CSR disclosures within the annual report, i.e., Chairman’s Statement, Operations Review, Corporate Diary or other sections;

- To determine the extent of CSR disclosures, as measured by the number of sentences.
- To examine if legitimacy theory can be used to explain CSR disclosures.

The remainder of the paper is organized as follows. The second section reviews the literature and presents the theoretical framework. The third section describes the methodology. The fourth section presents a discussion of the results. Finally, the conclusion and limitations of the study are presented in the fifth section.

2. REVIEW OF LITERATURE

2.1 CSR DISCLOSURE PRACTICES

CSR disclosures have been the focus of much academic research since the mid-1970's. The popularity of this strand of research may be attributed to the apparent increasing recognition within the business community of the importance major stakeholders attach to socially and environmentally responsible corporate behavior (Zadek, 1998). CSR disclosures have been defined by a number of researchers. Deegan and Rankin (1996, 51), for instance, describe such disclosures as: "... disclosures relating to the interaction between an organization and its physical and social environment inclusive of disclosures relating to human resources, community involvement, the natural environment, energy and product safety." Though numerous empirical studies have been undertaken to examine the content of annual reports for CSR disclosures, many of these studies have examined this issue in the developed West, i.e., in countries such as the U.S., Canada, the U.K., Australia and Western Europe (Ernst and Ernst, 1978; Guthrie and Parker, 1990; and Roberts, 1992). Very few studies have examined CSR disclosure practices in the developing countries, e.g., Bangladesh, Jordan, Malaysia and Singapore (Belal, 2001; Imam, 2000; Abu-Baker and Naser, 2000; Teoh and Thong, 1984; Andrew et al., 1989; and Tsang, 1998), and even then much of the works are now outdated.

Ernst and Ernst (1978) examined social and environmental related information in the annual reports of Fortune 500 companies between 1972 and 1978. They found that 388 (78 percent) companies had environmental-related disclosures, 333 (67 percent) companies disclosed information on energy, 387 (77 percent) companies had disclosures related to fair business practices, 302 (60 percent) had information on

human resources, 361 (72 percent) about community involvement, 184 (37 percent) about products and 120 (24 percent) companies disclosed information on other social responsibility issues.

Meanwhile, Guthrie and Parker (1990), using content analysis, examined the annual reports of 150 companies in three countries; the U.S., U.K., and Australia. They found that 98 percent of the U.K. companies, 85 percent of the U.S. companies and 56 percent of the Australian companies had CSR disclosures in their annual reports. The disclosures covered six themes: human resources, community involvement, environment, energy and products and others. In terms of the method of disclosure, Guthrie and Parker found that companies in the U.S. and U.K. favored a mixture of monetary and non-monetary quantitative disclosures, while Australian companies used mostly declarative CSR disclosures. The study also found that U.K. companies mostly disclosed CSR information in the Directors' report. In Australia, however, CSR disclosures were made in various sections of the annual report.

Research in the developing countries has generally found that the extent of CSR disclosures in annual reports is lower than in the developed countries. Savage (1994) examined the CSR disclosure practices of 115 companies in South Africa. He found that as many as 50 percent of the companies had some CSR disclosures, with human resource disclosures being the most popular. This is closely followed by disclosures on community involvement and environmental performance. The extent of disclosure, however, is low. Tsang (1998) performed a longitudinal study of 33 public listed companies in Singapore, in the banking, food and beverages and hotel industries. The study covers the period from 1986 to 1995. Results of the study showed that CSR disclosures of these companies were mainly in the area of human resources and community involvement. Though the study found some increases in the amount of CSR disclosures over the ten-year period, the extent of disclosure is still low.

Imam (2000) and Belal (2001) surveyed CSR disclosure practices in Bangladesh. Imam found that the level of such disclosures was very poor and inadequate. Belal examined the annual reports of 30 companies listed on the Dhaka Stock Exchange. He found that though 97 percent of companies made some form of CSR disclosure, the volume disclosed was very low. The disclosures were largely descriptive in nature, and emphasized 'good news'. Only one instance of 'bad news' disclosure was found (Belal, 2001).

Abu Baker and Naser (2000) also utilized content analysis to

examine the annual reports of 143 Jordanian companies listed on the Amman Financial market. They examined the content-category themes, methods and location of CSR disclosures within annual reports. The predominant themes for CSR disclosure amongst companies in Jordan are human resources and community involvement. Additionally, the extent of CSR disclosure is also very low (Abu Baker and Naser, 2000). Their findings appear to mirror the results of prior studies done in other developing countries (Andrew et al., 1989; Savage, 1994; and Teoh and Thong, 1984).

To date, two major empirical studies have been published on CSR practices in Malaysia. The earliest study was a personal interview questionnaire survey by Teoh and Thong (1984). They surveyed a combination of one hundred foreign and locally owned companies in Malaysia. Teoh and Thong (1984) focused on three related issues, namely, the concept of CSR, the nature and extent of corporate involvement in such activities and corporate social reporting. The authors found that only 29 percent of companies in the sample reported on social performance in their annual reports. Seventy-one percent (71 percent) did not. Further, foreign-owned companies made more CSR disclosures than Malaysian companies. The areas reported on most frequently were human resources and products/services to companies. Teoh and Thong, however, did not examine the extent of CSR disclosures. One limitation of Teoh and Thong's study is that their examination of the themes of CSR disclosures was based solely on personal interviews. No attempt was made to examine the contents of company annual reports. A content analysis approach would have provided more detailed information of CSR disclosures made by the sample companies. Thus, the present study seeks to provide a more detailed description of CSR disclosures by employing a content analysis methodology. Meanwhile, Andrew et al. (1989) examined 119 annual reports of publicly listed companies in Malaysia and Singapore in 1983. The authors found that only 26 percent of the companies had some CSR disclosures. They also found that a higher number of large and medium size companies disclosed social information as compared to smaller sized ones. Interestingly, human resource was also the dominant theme. The industry that had the highest proportion of companies with CSR disclosures in their annual reports is the banking and finance industry. On the whole, the study clearly showed that the level of CSR disclosures, then, was very low, ranging from less than a quarter of a page to slightly more than one page. The authors, however, did not make any distinction between Malaysian and Singaporean companies.

As a result, one is unable to get a complete picture of the state-of-the-art of CSR disclosures in each individual country.

Teoh and Thong (1984) used a personal interview survey, whereas Andrew et al. (1989) examined annual reports. Due to this difference in methodology, it is difficult to compare the findings of these two studies. As indicated earlier, Teoh and Thong (1984) did not examine CSR disclosures in annual reports. Their examination was limited to the number of companies having CSR disclosures according to the four aspects of human resources, products/services to customers, community involvement and physical environment. In addition, neither study attempted to document evidence in terms of whether disclosures were monetary, non-monetary or declarative in nature. The studies also did not examine CSR disclosures in terms of location in the annual report or news-type. Accordingly, the present study adds to the growing body of literature in the area by focusing on the preceding issues.

Furthermore, no study on CSR practices in Malaysia has been published in the 1990's. Due to increasing levels of education and heightened awareness on issues related to the social and environmental responsibilities of businesses, it may be expected that the nature and level of such disclosures by companies in Malaysia have changed. There is, therefore, a gap in knowledge on current CSR disclosure practices in Malaysia. Hence, the present study intends to fill this gap.

2.2 LEGITIMACY THEORY

As in a number of similar studies (Guthrie and Parker, 1990; Patten, 1991 and 1992), the present study utilizes legitimacy theory in an attempt to explain CSR disclosures in the annual reports of Malaysian companies. Malaysia has undergone substantial social and economic change over the past two decades. Levels of education have increased in tandem with economic affluence, resulting in increased public awareness on many issues, including the social and environmental impact of businesses on society. This fact may be discerned from the public outcry that has occurred on numerous occasions following media coverage of incidents, which highlight the gross neglect of public concern by businesses. Examples of such incidents include the environmental damage caused by indiscriminate land clearing in the Cameron Highlands, a popular hill resort in Malaysia and many instances of toxic waste dumping in rivers and other areas in Malaysia. The recent emergence of various NGOs in Malaysia such as Sahabat Alam, as well as active consumer associations, has also led to the increased awareness of the social and

environmental responsibilities of businesses. Legitimacy theory posits that the manner in which a company runs its business and reports on its activities will be influenced by the social values of the society and community in which the company exists. Accordingly, if companies are aware of the changes in public perception and awareness of the need for businesses to be socially responsible, companies will attempt to seek legitimacy. In other words, companies will respond to the increased awareness by increasing their CSR disclosures in annual reports. The above behavior is consistent with one of the three strategies described by Lindblom (1994) as an attempt to attain legitimacy. These strategies are: (a) to educate and inform the relevant public about actual changes in the organization's performance and activities; (b) to change the perceptions of relevant public without having to change its actual behavior; and (c) to deflect attention from issues of concern to other issues.

Neu, Wasame and Pedwell (1998) also pointed out the role of voluntary disclosures in annual reports in attaining legitimacy. To quote, the authors claim that “. . . narrative disclosures in annual reports allow managers to stage and direct the play they wish their publics to see, to pick the characters, to select the script and to decide which events will be highlighted and which will be omitted” (Neu, Wasame and Pedwell, 1998, 269). Accordingly, the present study attempts to investigate if legitimacy theory can be used to explain the nature of CSR disclosures in company annual reports.

3. METHODOLOGY

3.1 SAMPLE SELECTION AND DATA COLLECTION

Letters requesting a copy of the year 2000 annual reports were sent to the top 200 companies (as measured by market capitalization) listed on the Kuala Lumpur Stock Exchange (KLSE). The market capitalization ranking was based on the December 31, 2000 ranking, as published in the January 2001 issue of the *Investors' Digest*. Of the 200 companies contacted, 98 companies responded by sending in their 2000 annual reports, resulting in a 49 percent useable response rate. Distribution of the sample of companies according to industrial sector of the KLSE and their proportion to the population are shown in Table 1. Companies which did not send their annual reports after the initial request were re-contacted by telephone and another request was made. Only a few companies responded to this follow-up. Time and cost constraints did

TABLE 1
Distribution of Sample Companies

	Consumer Products	Industrial	Construction	Trading/Service	Finance
Population	63	109	33	100	69
Sample	9	20	9	20	17
Sample as a % of population	14%	18%	27%	20%	25%

	Infrastructure Projects	Properties	Plantation	Technology	Total
Population	6	81	41	14	516
Sample	1	8	12	2	98
Sample as a % of population	17%	10%	29%	14%	19%

not enable the authors to proceed with a second follow-up. A few companies sent in either their 1999 annual reports or their 2001 annual reports, and hence were removed from the study sample. Some companies did not respond to the request or stated that they had no more copies of their 2000 annual reports left. Additionally, a number of letters were returned due to incomplete or incorrect addresses. This is despite the fact that the authors had referred to the KLSE directory listing of companies. Attempts to locate the addresses or contact numbers of these companies by other means also failed.

The companies in the sample are from different industrial sectors of the KLSE Main Board, namely, consumer products, industrial products, construction, trading/services, finance, infrastructure project, properties, plantations and technology. Only the hotel, mining and trust fund sectors were unrepresented. Appendix A lists the names of companies in the sample. Although the total sample size represents only 19 percent of the total number of companies listed on the KLSE, it

can be seen from Table 1 that the sample is quite well distributed across the industrial sectors.

3.2 CONTENT ANALYSIS METHODOLOGY

As is the case with most studies on social and environmental disclosures, a content analysis approach is used (see, for example, Abbot and Monsen, 1979; Abu-Baker and Naser, 2000; Andrew, et al., 1989; Belal, 2001; Imam, 2000; Ernst and Ernst, 1978). Content analysis is defined by Krippendorff (1980, 21) as “a research technique for making replicable and valid inferences from data according to their context.” In line with other studies investigating CSR disclosure practices, the present study limits the analysis to the annual reports (Freedman and Jaggi, 1988; Gray, Kouhy and Lavers, 1995; Hackston and Milne, 1996; Neu, Wasame and Pedwell, 1998). Hughes, Andersen and Golden (2001) also cited the frequent use of annual reports in CSR disclosure studies. They argued that this is due to “. . . their wide availability and the perception that this is the medium most often used by corporations to communicate in a systematic manner with shareholders” (Hughes, Anderson and Golden, 2001, 224).

According to Milne and Adler (1999), the construction of a categorization scheme is an essential stage in content analysis research. This involves the selection and development of categories into which content units can be classified (Tilt, 2000). The measurement instrument used in this study is adapted from Hackston and Milne’s (1996) study (see Appendix B). The measurement instrument contains 17 content categories within five testable dimensions. These are summarized below:

- a. Theme: environment, energy, products and consumers, community involvement, employees and others (Ernst and Ernst, 1978)
- b. Evidence: monetary, non-monetary-quantitative and declarative (Ernst and Ernst, 1978)
- c. News type: good, bad and neutral
- d. Amount: number of sentences
- e. Location in annual report: Chairman’s Statement, Operations Review, Corporate Diary and Others

To ensure that the coding process is reliable, definitions of what comprised each category of CSR disclosures were detailed out in a separate sheet. These were drawn from a review of the literature,

notably the works of Williams and Ho (1999) and Hackston and Milne (1996, see Appendix C). In addition, the same coding rules used by Hackston and Milne (1996) were adopted in the present study (see Appendix D). These three instruments helped make the coding process simpler and also reduced much of the subjectivity in deciding what actually constituted CSR disclosures and how to categorize them. The use of these decision categories and decision rules improves the reliability of the coding process (Milne and Adler, 1999). Consistent with other studies, the unit of analysis for the present study was the sentence.

Unerman (2000) argues that the method of measurement is one crucial factor in content analysis research. Unerman is in favor of using the number of sentences to measure the volume of disclosure as he claims that this may be done with less use of judgement. Ingram and Frazier (1980) supported the use of sentences for several reasons. They argue that a sentence is easily identifiable, less subject to inter-coder variations, and has been selected as an appropriate unit in similar studies. Hackston and Milne (1996) also attest to the reliability of the sentence as a unit of analysis. They feel that the use of sentences avoids the problems of allocating a portion of a page and removes the need to standardize the number of words. Other researchers who support the use of the number of sentences to measure volume include Milne and Adler (1999) and Tsang (1998). The general procedure for performing the content analysis of annual reports is as outlined below:

Two graduate students performed the content analysis. Prior to the coding process, the research assistants were given a detailed briefing on what constitutes a CSR disclosure, the use of the coding instrument and an explanation of the different categories and types of disclosure. During the briefing session, the first author used several different annual reports that were not part of the actual sample used for the study, to highlight different types of disclosure. At the end of the session, each research assistant was then handed a few annual reports to attempt the coding. Upon completion of this preliminary round of coding, the authors met with both assistants and reviewed their coding and categorizations. The authors also addressed specific problems in coding raised by the research assistants.

Following the initial round of coding, the research assistants were required to report to the first author on a regular basis. In these meetings, the research assistants would discuss any problems that they had with the data. Any ambiguity with the items of disclosure were reviewed

and resolved. This was necessary to ensure consistency and reliability in the content analysis procedure (Milne and Adler, 1999).

4. RESULTS AND DISCUSSION

4.1 INCIDENCE OF CSR DISCLOSURES

The number of companies having CSR disclosures and the distribution between different industrial sectors of the KLSE are summarized in Table 2. As shown in Table 2, all industry groups have some CSR disclosures. Also, Table 2 reveals that as many as 84 percent of the companies in the sample have some form of CSR disclosures in their annual reports. This is a substantial increase from the 26 percent (out of a total of 119 companies) in Andrew et al.'s (1989) study and the 29 percent (in a sample of 100 companies) in Teoh and Thong's (1984) study. The percentage of companies within each industrial sector with CSR disclosures is relatively high. A closer examination reveals that at least 75 percent of companies in each sector in the sample had some CSR disclosures. The findings imply that companies in Malaysia do have CSR disclosures in their annual reports. In addition, the results suggest that there has been a marked increase (as compared to Teoh and Thong's and Andrew et al.'s studies) in the number of companies making CSR disclosures in their annual reports, irrespective of industrial sector. This may have been due to the change in values of the society. The public is becoming increasingly more aware of the need for businesses to be socially responsible and companies are responding to these changing values by increasing the amount of CSR disclosures in their annual reports. This suggests the possibility that companies wish to appear legitimate to society (Lindblom, 1994).

4.2 CONTENT-CATEGORY THEMES OF CSR DISCLOSURES

Table 3 details the breakdown of the number and percentage of companies in the sample making CSR disclosures in various content-category themes, by industrial sector. Overall, it can be seen from the table that as many as 72.4 percent of the total number of companies in the sample made CSR disclosures in the area of products and consumers. The content-category theme of employees is in the second place, with 62.2 percent of companies in the sample making disclosures under this theme. This, again, is a substantial increase from the findings of Teoh and Thong (1984). In that study, 67 percent of companies with CSR

TABLE 2
Incidence of CSR Disclosures by Industry

Industrial Sector	Number of Companies in Sample	Number of Companies Having CSR Disclosures	Percentage of Sample
Consumer Products	9	7	78%
Industrial Products	20	15	75%
Construction	9	8	89%
Trading/Services	20	19	95%
Banking & Finance	17	13	76%
Infrastructure Projects	1	1	100%
Properties	8	8	100%
Plantations	12	9	75%
Technology	2	2	100%
Total	98	82	84%

TABLE 3
Content-Category Theme of CSR Disclosures

Content- Category Theme	Consumer Products		Industrial Products		Construction		Trading/ Services		Finance		Infrastructure Projects		Properties		Plantations		Technology		Total			
	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%		
Environment	2	22	8	40	5	56	4	20	2	12	0	0	0	5	63	7	58	2	50	34	35	
Energy	1	11	1	5	2	22	1	5	0	0	0	0	0	0	0	2	16	1	50	8	1	
Products and Consumers	7	78	11	55	7	78	17	85	11	65	1	100	6	75	9	75	9	100	2	100	71	72
Community	2	22	9	45	5	56	14	70	9	53	1	100	6	75	5	42	1	50	50	50	51	
Employee	5	56	12	60	6	67	13	65	12	71	1	100	4	50	6	50	2	100	61	61	62	
General	0	0	1	5	1	11	2	10	0	0	0	0	0	0	0	0	0	0	0	4	4	4
Total	17		42		26		51		34		3		19		29		7		228		228	

disclosures, disclosed aspects of human resources and products/services to consumers. A significant percentage of companies in each industrial sector also had disclosures on community-involvement. The percentage of such disclosure within each sector ranges from 22 percent to 100 percent. About one third (34.6 percent) made environment-related disclosures, as compared to 10 percent in Teoh and Thong's (1984) study. A small minority made disclosures on energy (1 percent) and other themes (4 percent). Going by industrial sector, it is evident that a majority of the companies across industries focused their CSR disclosures on products and consumers. However, two sectors, namely, industrial products and finance, had the highest number of companies with employee-related disclosures. An interesting finding is that the category with the lowest number of companies having CSR disclosures is energy or 'others'. Further, environment-related disclosures had different patterns across the industrial sectors, ranging from 11.7 percent in the finance sector, to as high as 62.5 percent in the properties sector. The findings show that there is no distinct emphasis on any particular content-category theme for CSR disclosure in Malaysia. Though a majority of companies in the sample had CSR disclosure on products and consumers, there were also disclosures in the other content-category themes. One plausible explanation for this is that CSR disclosure in Malaysia is voluntary. Hence, companies are not obligated to report specific types of CSR information.

4.3 METHODS OF CSR DISCLOSURES

In line with previous studies, the CSR disclosures were categorized according to their methods, i.e., monetary, non-monetary quantitative and declarative. The different methods of CSR disclosures used in the annual reports of the sample companies are as shown in Table 4. Table 4 indicates that CSR disclosures in company annual reports were dominated by declarative statements (80.6 percent). This finding is consistent with studies done in other developing countries (i.e., Abu-Baker and Naser, 2000; Belal, 2001; Imam, 2000; Tsang, 1998). On the other hand, a mere 23.4 percent of the sample of companies made monetary disclosures whilst 50 percent made some form of non-monetary quantitative disclosures.

4.4 NEWS-TYPE OF CSR DISCLOSURES

As in similar studies, CSR disclosures may be categorized into three

TABLE 4
Method of CSR

Method of CSR	Consumer Products		Industrial Products		Construction		Trading/ Services		Finance		Infrastructure Projects		Properties		Plantations		Technology		Total	
	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%
Monetary	1	11	2	10	3	33	8	40	5	29	1	100	1	13	1	8	1	50	23	23
Non-monetary	3	33	10	50	5	56	11	55	8	47	1	100	3	38	7	58	1	50	49	50
Declarative	7	78	15	75	8	89	19	95	13	76	1	100	7	88	8	67	1	50	79	816
Total	11		27		16		38		26		3		11		16		3		151	

TABLE 5
News-Type of CSR

News-Type	Consumer Products		Industrial Products		Construction		Trading/ Services		Finance		Infrastructure Projects		Properties		Plantations		Technology		Total		
	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	
Good news	7	78	13	65	7	78	19	95	12	71	1	100	7	88	9	75	2	100	78	80	
Bad news	0	0	1	5	1	11	0	0	0	0	0	0	0	0	0	0	0	0	0	2	2
Neutral	3	33	11	55	7	78	11	55	8	47	1	100	3	38	5	42	1	50	50	51	
Total	10		25		15		30		20		3		10		14		3		130		

groups, based on their news-type (see Table 5). These are good news, bad news or neutral. It is evident from Table 5 that good news is the most dominant form of CSR disclosures made by Malaysian companies. Approximately 80 percent of the total sample made good news disclosures. In contrast, a mere 2 percent of companies had negative or bad news disclosures. Meanwhile 51 percent of the total sample had neutral disclosures. The results are consistent with similar studies (Belal, 2001; Imam, 2000; Tsang, 1998). These findings emphasize the fact that CSR disclosures are mere attempts at improving the image of companies rather than to fulfill stakeholders' information needs. Companies want to be seen as being good corporate citizens. They wish to appear 'legitimate' in the eyes of society. Accordingly, most companies indulge in 'good news' and neutral reporting where they only report on the positive impacts on society and choose not to disclose the 'bad news'. This is consistent with legitimacy theory. The two companies which did report on 'bad news', disclosed information on a leakage detected inside the company's refinery and excess gases emitted from the company's operations. Though this is a laudable attempt at disclosing the 'true and fair' view of their operations, these disclosures are still limited in the sense that they are very general and ad-hoc and have no uniformity across companies. The trend across industries is similar. The highest percentage of companies within an industry sector disclose 'good news' while 33 to 50 percent of the companies made neutral disclosures. Only two companies disclosed bad news. The findings provide some support for legitimacy theory in explaining CSR disclosures.

4.5 LOCATION IN THE ANNUAL REPORT

The location of CSR disclosures within the annual report was also examined. Table 6 shows that the proportion of companies with CSR disclosures in the Chairman's Statement and Operations Review sections of the annual report is relatively similar. Fifty-one percent of companies had disclosures in the former, and 44.8 percent of the companies have CSR disclosures in the latter section. Meanwhile, disclosures in the Corporate Diary and 'Other' sections were relatively fewer. Tsang (1998), however, found that social information was usually reported in the review of operations section. Tsang did not mention CSR disclosures in the Chairman's statement. However, Tsang (1998) reports that there is no structure in the way CSR disclosures are presented. This appears to be consistent with our findings. We found no distinct patterns of

TABLE 6
Location of CSR

Location of CSR	Consumer Products		Industrial Products		Construction		Trading/ Services		Finance		Infrastructure Projects		Properties		Plantations		Technology		Total	
	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%
Chairman	4	44	3	15	4	44	15	75	12	71	1	100	7	88	6	50	2	100	54	55
Operations Review	3	33	6	30	7	78	16	80	5	29	0	0	2	25	5	42	0	0	44	44
Diary	2	22	3	15	3	33	7	35	5	29	0	0	1	13	2	17	1	50	24	24
Others	0	0	7	35	3	33	4	20	7	41	0	0	1	13	3	25	1	50	26	27
Total	9	19	19	42	17	29	1	11	16	4	148	148	148	148	148	148	148	148	148	148

TABLE 7
Frequency of CSR

	Consumer Products	Industrial Products	Construction	Trading/ Services	Finance	Infrastructure Projects	Properties	Plantation	Technology	Total
Total	90	360	238	462	517	17	51	209	30	1974
Average	10	18	26	23	30	17	6	17	15	20.14
Minimum	3	1	1	4	3	17	2	1	5	1
Maximum	28	152	124	90	210	17	13	58	25	210

specific locations for CSR disclosures in the annual reports of Malaysian companies.

4.6 AMOUNT OF CSR DISCLOSURES

The amount of CSR disclosures was measured by the number of sentences. Table 7 indicates that the sample of companies had a total of 1974 sentences, which constitute CSR disclosures. The industry sector which had the highest number of CSR sentences is the finance industry with a total of 517 sentences. The number of CSR sentences ranges from as low as 1 to 210 per company. To summarize, the results presented above clearly suggest that there is a lot of difference in the extent and nature of CSR disclosures in the annual reports examined. To illustrate the extreme diversity between annual reports, Golden Hope and Shell stand out as notable examples. Golden Hope has separate sections exclusively devoted to the different elements of CSR reporting such as environment, employees, and social responsibility, whereas many companies across different industries have zero CSR disclosures. Meanwhile, Shell's CSR disclosure is exemplary as it not only has two 'bad news' disclosures but it also practises 'compliance with standards' reporting. In its 'Sustainable Development' section, the company reports its actual performance in terms of ambient air quality, alongside the recommended Malaysian Air Quality Guidelines, as well as Occupational Health and Safety Regulations, 2000. Such reporting actually allows the readers of the annual reports to benchmark the company's performance against the minimum acceptable standards.

5. SUMMARY AND CONCLUSIONS

This paper examines the incidence of CSR disclosure practices of selected public listed companies in Malaysia. It was found that there was extreme diversity in format and information provided. However, most companies disclose information related to products and consumers, employees and community involvement. It was also found that the CSR disclosures contain little quantifiable data. The results provide further evidence that CSR disclosures in Malaysia are *ad-hoc*, general and self-laudatory in nature. The results, therefore, provide some preliminary evidence of the possibility that CSR disclosures in Malaysia represent attempts by companies to improve their corporate image and to be seen as responsible corporate citizens. Accordingly, legitimacy theory,

as articulated by Lindblom (1994) may be seen as providing an appropriate explanation for such disclosures.

Results of the content analysis also suggest that CSR disclosures do not vary substantially across industry groups. Neither was there any distinct pattern for a particular industrial sector. This is surprising given that nine industrial sectors (out of the total of twelve) are represented in the sample, and that they represent diverse sectors, ranging from banking and finance to industrial products. It would have been reasonable to expect that given the diversity of the content-category themes in CSR, certain industries might have been more inclined to make CSR disclosures in particular content-category themes in their annual reports. For example, companies in environmentally-sensitive industries such as construction, industrial products and consumer products, may have more environment-related disclosures compared to companies in industries like banking and finance and trading/services. This finding suggests that there is not much difference in terms of the nature and type of CSR disclosures made across industrial sectors.

The present study is subject to several limitations. One limitation of the study is that it relates to a single year only and is restricted to annual reports of companies. As such, the study excludes other possible sources of CSR disclosure, such as press releases, flyers, promotional leaflets and other documents. The second limitation relates to sample size. Owing to the small sample and the minimal amount of CSR disclosures, it was not possible for us to run any statistical tests to examine if there are significant differences in the nature and extent of CSR disclosures between industrial sectors. Finally, due to the content analysis method applied in this study, there is some amount of subjectivity. This limitation, however, applies to all content analytic studies and has been noted in previous studies (Gamble et al., 1996).

The findings have several implications. First, it appears that without some form of regulatory intervention, reliance on voluntary disclosure alone is unlikely to result in either a high quality of disclosure or sufficient levels of disclosure. Consequently, perhaps, the Malaysian Accounting Standards Board (MASB) and the Securities Commission should take another look at making CSR disclosure mandatory. One possible reason for the lack of CSR disclosures is the absence of CSR reporting standards. While companies may perceive that society demands such disclosure, they may be reluctant to make the disclosure because of the lack of standards. This may mean that companies which have made significant CSR disclosures may be at a disadvantage compared to companies which made no or minimal disclosures. Making CSR

disclosures mandatory would force companies to report on their social and environmental performance. They would also benefit stakeholders by making annual reports more consistent and comparable. Due to the extreme diversity and lack of comparability among existing annual report content and presentation, investors may have difficulty in determining which companies are more socially responsible.

To add to the findings of the present study, future work may be undertaken in several areas. First, a longitudinal study may provide further insights into some reporting patterns, if any. Second, the research can be replicated with a bigger sample size to enable the application of some statistical tests to determine differences between industrial sectors. Also, the present study merely provides some limited support for legitimacy theory. Future studies with larger samples and different research methods need to determine if previously suggested frameworks, i.e., Legitimacy theory, Stakeholder theory, Political-Economy theory, and/or Institutional theory, can explain the CSR disclosure practices of Malaysian companies. Another possible avenue of research would be to examine if CSR disclosures are associated, in any way, with companies' financial performance. Some previous studies have theorized that profitable companies would be more likely to implement CSR disclosures (see for example, Bowman, 1978; Fry and Hock, 1976; Jaggi and Freedman, 1982). Additionally, surveys and interviews may be conducted with those who prepare annual reports to elicit their views on the reasons for companies not reporting CSR information or to see their influences on companies' decisions to report or not to report CSR information in their annual reports. Finally, research determining whether stakeholders need CSR information would provide useful insights on the necessity of CSR disclosures in annual reports.

ENDNOTE

1. Samples which have not been selected on any systematic basis.

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APPENDIX A
List of Companies

No.	Company Name	Sector
1	AMMB Holdings Bhd.	F
2	AMWAY (M) Holdings Bhd.	TS
3	Asiatic Development Bhd.	PL
4	Austral Enterprises Bhd.	PL
5	Bandar Raya Developments Bhd.	PR
6	Bank Islam (M) Bhd.	F
7	Bank Utama (M) Bhd.	F
8	Batu Kawan Bhd.	PL
9	Berjaya Capital Bhd.	F
10	Berjaya Group Bhd.	TS
11	Boustead Holdings Bhd.	TS
12	Camerlin Group Bhd.	IP
13	Carlsberg Brewery (M) Bhd.	CP
14	Chin Teck Plantations Bhd.	PL
15	Cosway Corporation Bhd.	CP
16	Courts Mammoth Bhd.	TS
17	Cycle & Carriage Bintang Bhd.	CP
18	DRB-Hicom Bhd.	IP
19	Esso Malaysia Bhd.	IP
20	FACB Resorts Bhd.	PR
21	FFM Bhd.	CP
22	Gamuda Bhd.	CN
23	Golden Hope Plantations Bhd.	PL
24	Guthrie Ropel Bhd.	PL
25	Hong Leong Credit Bhd.	F
26	Hong Leong Industries Bhd.	CP
27	Hong Leong Properties Bhd.	PR
28	Hume Industries (M) Bhd.	IP
29	Hwang-DBS (M) Bhd.	F

No.	Company Name	Sector
30	IGB Corporation Bhd.	PR
31	IJM Corporation Bhd.	CN
32	Intria Bhd.	CN
33	IOI Properties Bhd.	PR
34	Jaya Tiasa Holdings Bhd.	IP
35	John Hancock Life Insurance (M) Bhd.	F
36	K&N Kenanga Holdings Bhd.	F
37	Kedah Cement Holding Bhd.	IP
38	Kuala Lumpur Kepong Bhd.	PL
39	Kuala Sidim Bhd.	PL
40	KUB Malaysian Bhd.	TS
41	Kulim (M) Bhd.	PL
42	Leisure Management Bhd.	TS
43	Lingkar Trans Kota Holdings Bhd.	IPC
44	Lingui Developments Bhd.	IP
45	Malayan Banking Bhd.	F
46	Malayan Cement Bhd.	IP
47	Malayan United Industries Bhd.	TS
48	Malaysia International Shipping Corp Bhd.	TS
49	Malaysian Mosaic Bhd.	TS
50	Malaysian National Reinsurance Bhd.	F
51	Malaysian Oxygen Bhd.	IP
52	Malaysian Pacific Industries Bhd.	TECH
53	Malaysian Plantations Bhd.	F
54	Maruichi Malaysia Steel Tube Bhd.	IP
55	MK Land Holdings Bhd.	PR
56	MNI Holdings Bhd.	F
57	MTD Capital Bhd.	CN
58	Multi-Purpose Holdings Bhd.	TS

No.	Company Name	Sector
59	Naluri Bhd.	TS
60	New Straits Times Press (M) Bhd.	TS
61	O.S.K Holdings Bhd.	F
62	Oriental Holdings Bhd.	CP
63	Pan Malaysia Corporation Bhd.	IP
64	Pernas International Holdings Bhd.	TS
65	Perusahaan Otomobil Nasional Bhd.	CP
66	Petronas Dagangan Bhd.	TS
67	Petronas Gas Bhd.	IP
68	PJ Development Holdings Bhd.	CN
69	PPB Group Bhd.	CP
70	PSC Industries Bhd.	IP
71	Public Bank Bhd.	F
72	Ramatex Bhd.	IP
73	Rashid Hussain Bhd.	F
74	Renong Bhd.	CN
75	RHB Capital Bhd.	F
76	Road Builder (M) Holdings Bhd.	CN
77	Sarawak Enterprise Corporation Bhd.	TS
78	Shell Refining Company (F.O.M) Bhd.	IP
79	Sime Darby Bhd.	TS
80	Southern Steel Bhd.	IP
81	SP Setia Bhd.	PR
82	Sunway Holding Incorporation Bhd.	CN
83	TA Ann Holdings Bhd.	IP
84	Tanjong Public Limited Company	TS
85	Tasek Corporation Bhd.	IP
86	TCL Premier Holdings Bhd.	F
87	Technology Resources Industries Bhd.	TS

No.	Company Name	Sector
88	Tenaga Nasional Bhd.	TS
89	TH Group Bhd.	PL
90	Time Engineering Bhd.	TS
91	Tractors (M) Holdings Bhd.	IP
92	Tradewinds (M) Bhd.	CP
93	Unisem (M) Bhd.	TECH
94	United Malacca Rubber Estates Bhd.	PL
95	United Malayan Land Bhd.	PR
96	United Plantations Bhd.	PL
97	WTK Holdings Bhd.	IP
98	YTL Corporation Bhd.	CN

Notes: CN = Construction
 CP = Consumer products
 F = Finance
 IP = Industrial products
 IPC = Infrastructure project company
 PL = Plantations
 PR = Properties
 TECH = Technology
 TS = Trading/services

APPENDIX B
 CSR Disclosure Instrument

Name of Company: _____ Year: _____

Text disclosures	Environment	Energy	Products/ Consumers	Community involvement	Employee	General	Total
Sentence characteristics							
Monetary/good news							
Monetary/bad news							
Monetary/neutral							
Non-monetary/good news							
Non-monetary/bad news							
Non-monetary/neutral							
Declarative/good news							
Declarative/bad news							
Declarative/neutral							
Total (number of sentences)							

First rater: _____ Second rater: _____ Ambiguities/Problems? _____ Yes _____ No

Signature: _____ Signature _____ Need to be re-rated? _____ Yes _____ No

Date: _____ Date: _____

APPENDIX C
**Categories and Decision Rules for Environmental and Social
Accounting Disclosure by Companies**

A.1 Category One – Environment

A.1.1 General Environmental Considerations

Statement of the corporation's business operations on environmental pollution pertaining to

- noise
- air
- water
- visual quality

A.1.2 Environmental Pollution

- Pollution control in the conduct of business operations, capital operating and research and development expenditures for pollution abatement;
- Statements indicating that pollution laws and regulations are non-polluting or that they are in compliance with pollution laws and regulations;
- Statements indicating that pollution from operations has been or will be reduced;
- Prevention or repair of damage to the environment resulting from processing or natural resources, e.g., recycling glass, metal, oil, water and paper;
- Using recycle materials;
- Efficiently using materials resources in the manufacturing process;
- Supporting anti-litter campaigns;
- Receiving an award relating to the company's environmental programs or policies;
- Preventing waste.

A.1.3 Environmental Aesthetics

- Designing facilities that are harmonious with the environment;
- Contributions in terms of cash or art/sculptures to beautify the environment;
- Restoring historical buildings and structures;
- Landscaping.

A.1.4 Environmental Policy

- Actual statement of policy;
- Statements of formal intentions;
- Statements indicating that the company will undertake certain measures to curb environmental pollution and other such damage of what the company does.

A.1.5 Environmental Audit

- Reference to environmental review, scoping, audit, and assessment including independent attestation.

A.1.6 Environmental – Product and Process-Related

- Wastage(s);
- Packaging;
- Recycling;
- Product and product development;
- Land contamination and mediation.

A.1.7 Environmental – Financially Related Data

- Reference to financial/economic impact;
- Investment and investment appraisal;
- Discussion of areas with financial/economic impact;
- Discussion of environmental-economic interaction.

A.1.8 Sustainability

- Any mention of sustainability;
- Any mention of sustainable development.

A.1.9 Environmental-Other

- Involvement in schemes;
- Undertaking environmental impact studies to monitor the company's impact on the environment;
- Wildlife conservation;
- Protection of the environment, e.g., pest control;
- Environment education;

(Note: All the classifications are undertaken with care so as to ensure that the disclosure is not part of the business (e.g., waste disposal or environmental technology).

A.2 Category Two – Energy

- Conservation of energy in the conduct of business operations;
- Using energy more efficiently during the manufacturing process;
- Utilizing waste material for energy production;
- Disclosing energy savings resulting from product recycling;
- Discussing the company's effort to reduce energy consumption;
- Disclosing increased energy efficiency of products;
- Research aimed at improving energy efficiency of products;
- Receiving an award for an energy conservation programme;
- Voicing the company's concern about the energy shortage;
- Disclosing the company's energy policies.

Note: care in classifying is taken if it is part of the business (e.g., oil exploration companies)

A.3 Category Three – Human Resources

A.3.1 Employee Health and Safety

- Reducing or eliminating pollutants, irritants, or hazards in the work environment;
- Promoting employee safety and physical or mental health;
- Disclosing accident statistics;
- Compliance with health and safety standards and regulations;
- Receiving a health and safety award;
- Establishment of a safety department/committee/ policy;
- Conducting research to improve work safety;
- Information/education/training of employees on safety and health related matters;
- Providing low cost health care for employees;
- Reference to health and safety law and/or inspectorate.

A.3.2 Employee Training

- Training employee through in-house programs;

- Giving financial assistance to employees in educational institutions; continuing education courses;
- Establishing training centres.

A.3.3 Employee Assistance/Benefits

- Providing assistance or guidance to employees who are in the process of retiring or who have been made redundant;
- Providing staff accommodation or ownership schemes;
- Provision of low health care services;
- Providing recreational activities/facilities.

A.3.4 Employee Remuneration

- Providing amount and/or percentage figures for salaries, wages. PAYE taxes super-annuation;
- Any policy/objective/reason for the company's remuneration package/schemes.

A.3.5 Employee Profiles

- Providing the number of employees in the company and/or at each branch/subsidiary;
- Providing the occupations/managerial levels involved;
- Providing the disposition of staff – where the staff are stationed and the number involved;
- Providing statistics on the number of staff members, the length of service in the company and their age groups;
- Providing per employee statistics, e.g., asset per employee and sales per employee;
- Providing detailed information on the qualifications and experience of employees recruited;
- Providing the geographical disposition of staff.

A.3.6 Employee Share Purchase Schemes

- Providing information on the existence of, or the amount and value of shares offered to employees under a share purchase scheme or pension program;
- Providing any other profit-sharing schemes.

A.3.7 Employee Morale and Relations

- Providing information on the company/management's relationships with the employees, and efforts to improve job satisfaction and employee motivation;

- Providing information on the stability of the worker's jobs and the company's future.
- Providing information on the availability of a separate employee report;
- Providing information about any award for effective communication with employees;
- Providing information about communication with employees on management styles and management programs which may directly affect the employees.

A.3.8 Industrial Relations

- Reporting on the company's relationship with trade union and/or workers;
- Reporting on any strikes, industrial actions/ activities and the resultant losses in terms of time and productivity;
- Providing information on how industrial action was reduced/negotiated.

A.3.9 Employee – Other

- Employment of minorities or women;
- Recruiting or employing minorities and/or women;
- Disclosing the percentage or number of minority and/or women employees in the workforce and/or in the various managerial levels;
- Establishing goals for minority representation in the workforce;
- Program for the advancement of minorities in the workplace;
- Employment of other special interest groups, e.g., the handicapped, ex-convicts or former drug addicts;
- Disclosures about internal advancement statistics;
- Proposals, plans or initiated actions for equal opportunity, racial equality and sexual equality;
- Improving the general working conditions – both in the factories and in the office;
- Information on the re-organization of the company/divisions/branches, which affect the staff in any way;
- The closing down of any part of the organization, the resultant redundancies created, and any relocation/retraining effort, made by the company to retain staff;
- Information and statistics on employee turnover;

- Information about support for day-care, maternity and paternity leaves.

A.4 Category Four – Products and Customers

A.4.1 Product Development

- Information on developments related to the company's products, including its packaging, e.g., making containers reusable;
- The amount/percentage figures of research and development expenditure and/or its benefits;
- Information on any research project set up by the company to improve its products in any way.

A.4.2 Product Safety

- Disclosing that products meet applicable safety standards;
- Making products safer for consumers;
- Conducting safety research on the company's products;
- Disclosing improved or more sanitary procedures in the processing and preparation of products;
- Information on the safety of the firm's product.

A.4.3 Product Quality

- Information on the quality of the firm's products as reflected in the prizes/awards received;
- Verifiable information that the quality of the firm's products has increased (e.g. ISO9000).

A.4.4 Consumer Information

- Disclosing of customer safety practices;
- Customer complaints;
- Specific consumer relations (over and beyond "our duty to the consumer");
- Provision for the disabled, aged, etc., customers;
- Provision for difficult-to-reach customers.

A.5 Category Five – Community Involvement

- Donations of cash, products or employee services to support established community activities, events, organizations, education and the arts;

- Summer or part-time employment of students or the disabled;
- Sponsoring public health or recreational projects;
- Aiding medical research;
- Sponsoring educational conferences, seminars or art exhibits;
- Funding scholarship programs or activities;
- Other special community-related activities, e.g., opening the company's facilities to the public;
- Supporting national pride/government-sponsored campaigns;
- Supporting the development of local industries or community programs and activities.

Notes: Adapted and modified from Hackston and Milne (1996) and Williams and Ho (1999).

APPENDIX D

Decision Rules for Social Disclosures

- Discussions of directors' activities are not to be included as a discussion on employees.
- All sponsorship activity is to be included no matter how much it is advertising
- All disclosures must be specifically stated and they cannot be implied.
- Good/neutral/bad classifications to be determined from perspectives of the stakeholder groups involved.
- If any sentence has more than one possible classification, the sentence should be classified as the activity most emphasized in the sentence.
- Tables (monetary and non-monetary), which provide information, which is on the checklist, should be interpreted as one line equals one sentence and classified accordingly.
- Innovations in products or service should not be included unless they are beyond what is necessary to compete in the market place or attract business.
- Any discussion of pension funds or employee share schemes would be classified as good news unless it was clearly to the contrary, e.g., that the schemes had been scrapped.

- Any disclosure which is repeated shall be recorded as a CSR sentence each time it is discussed.
- Discussions relating to the quality of goods and services will not be a CSR unless it contains notice of a verifiable change in quality, e.g., accreditation to the International Standards Organization ISO 9000 quality series standard.

Source: Hackston and Milne (1996).