However, a suitable definition for the purpose of this paper is by Guthrie and Mathews (1985) who defined Corporate Social Disclosure (CSD) as "the provision of financial and non-financial information relating to an organization's interaction with its physical and social environment, as stated in corporate annual reports or separate social reports".

1.2.3 Types of CSRR

This section attempt to discuss the various types of CSR since according to Lantos (2001), distinction need to be drawn between three different types of CSR a business can practice. There appear to be three mutually exclusive types of CSR i.e. ethical CSR, altruistic CSR and strategic CSR.

1.2.3.1 Ethical CSR

Ethical CSR involves fulfilling the firm's ethical duties. This is "social responsibility" in the sense that a corporation is morally responsible to any individuals or groups where it might inflict actual or potential injury (physical, mental, economic, spiritual and emotional) from a particular course of action (Lantos, 2001). Hence, any organization not adhering to its ethical responsibilities would be acting as a morally irresponsible.

1.2.3.2 Altruistic CSR

The terms altruistic suggest selfless actions, even at possible personal or organizational sacrifice. It includes all philosophies, policies, procedures and actions intended to enhance society's welfare and improve the quality of life, and it involves linking core corporate competencies to societal and community needs and therefore, goes beyond ethics to somehow making the world a better place by helping to solve social problems (Lantos, 2001).

1.2.3.3 Strategic CSR

Strategic CSR is done to accomplish strategic business goals - good works or contribution to the society that is also good for the business. With strategic CSR, corporations "give back" to the society because this is also in corporation's best financial interests to do so (Lantos, 2001).

Lantos (2001) also argued that, for any organization, ethical CSR is obligatory; and for public companies, altruistic CSR is not legitimate and companies should limit their strategic CSR.

1.4 OBJECTIVE AND SIGNIFICANCE OF RESEARCH

The study has been drawn on prior empirical research of Hackston and Milne, (1996). A number of other studies like Lau (1994) and Low, Koh and Yeow (1985) are considered as well. The study has three important issues to address. This study will provide an up-to-date description of corporate social disclosure (CSD) practices in Malaysia together with the nature and extent of social reporting practices in the light of documented overseas' studies. Particularly, the study will establish the way the companies disclose their social information i.e. the quantity of social information made available as well as the areas emphasized and more importantly whether there is any increment in the social reporting practice in Malaysia over the last eight years after the study conducted by Lau (1994).

The main objective of this study will be to examine some potential determinants of social disclosure practice of Malaysian companies listed on the Kuala Lumpur Stock Exchange. Most importantly, this study incorporates new variables as potential determinants of social reporting disclosures. These variables are the type of audit firm and financial leverage. Also, the study intends to provide statistical evidence as to the differences in social reporting practices of companies commended with National Annual Corporate Report Award (NACRA) with companies that do not. By employing three measurement methods of content analysis, it is hoped that the study will be able to present some new evidence on the best measurement methods for measuring social information.

Another important area of this study is to gather the perceptions and attitudes as well as the awareness of the accounting practitioners in Malaysia towards corporate social responsibility reporting. It is hoped that this study will also contribute to the sparse literature of corporate social responsibility reporting especially in developing countries like Malaysia.

1.5 RESEARCH QUESTIONS

Based on the above, the following research questions are developed and this study attempt to answer these five important questions:

1. What is the current reporting practice of the listed companies in Malaysia with regards to social responsibility reporting?
2. Is there any relationship between the size of the firm, its profitability, the audit firm employed, level of leverage and the type industry with the quantity of social information disclosed?
3. Are there any differences in the amount of social disclosures information between the companies that have been commended for good reporting NACRA with those that have not?
4. What is the best measurement method to capture the social information disclosed in the financial statements?
5. What is the level of awareness and perceptions of the accounting practitioners towards CSRR?

1.6 SCOPES AND LIMITATION OF RESEARCH

The study covers the social responsibility reporting practices of Malaysian companies listed in Kuala Lumpur Stock Exchange (KLSE). The advantage of using this sample is the information on the firms' audited annual reports is publicly available. This similar information is difficult to obtain in the case of small companies (i.e. private limited companies), or even if it is available, the reports are usually not audited.

Due to time and cost factors in relation to data collection, samples are drawn from the total companies listed on the KLSE. There were altogether 744 listed companies in 2000 out of which 257 are analyzed.

1.7 ORGANIZATION OF STUDY

This study is divided into five chapters. Chapter 1 covers the introduction part of the research, the role of businesses towards the society together with the definition and concept of social reporting, the objectives and significance of the research, the scope of the research and the organization of the research.

Chapter 2 looks at the previous studies on the subject matter. The chapter is divided into five parts. The first part of the chapter discusses the prior work done in establishing the conceptual framework of social reporting with the following section elaborating on the early studies done on social reporting. The third section covers the previous literature that shows the trend of social reporting practices in various countries in the world. The next section will cover the studies that examine the potential determinants of social reporting disclosure. The conclusions of the literature review are presented at the end of the chapter.

Chapter 3 presents the definition for all variables used in the study and the research methodology used in this study.

Chapter 4 presents an analysis of the findings of the survey and the results of the content analysis and the regression analysis conducted to test the hypotheses.

Chapter 5 provides a conclusion and a summary of the research findings. The suggestion for future research and implications of the research is presented at the end of the chapter.

CHAPTER 1. INTRODUCTION

1.1 OVERVIEW

The sustainable development of companies requires the combination of economic wealth, environmental protection, and social well-being. As suggested by O'Riordan (1999), "the corporate mind, long interested in the first and increasingly regulated into achieving the second, is now beginning to address the third of these goals". Increased social reporting by the world's large corporations such as Shell, Ben & Jerry's Ice Cream and The Body Shop that go an extra mile by producing a separate report on its relationship as well as its contribution to different sections of stakeholders. The move towards producing these social reports could do wonders for the cause of sustainability[1]. However, Firth (1979) found that corporations tend to give very little information above what is mandatory. This is supported by Chenhall and Juchau (1977) who concluded that corporate annual reports did not have a dominant place as a source of information.

The issue as to whether the annual reports disclose all the information expected from its stakeholders is still questionable. McNally, Lee and Hasseldine (1982) found that there is a considerable divergence between the degree of disclosure practiced by the corporations and the level of disclosure perceived by the users of the financial statements. With regards to the adequacy of disclosure, empirical studies have suggested that current corporate reporting practices worldwide are inadequate to satisfy the information needs of the users (for example, Low and Lee, (1990); McNally, Lee and Hasseldine, 1982; Buzby, 1974). As emphasized by Low *et al.* (1990) the statutory minimum disclosure requirement imposed on companies are inadequate to serve the needs of the sophisticated users. Tan, Zainal and Cheong (1990) in their study concluded that "voluntary disclosure in

[1]As business depends for its survival and long-term prosperity on society providing the resources – people, raw materials services, and infrastructure – which it needs to convert inputs into profitable goods and services. For this reason, this sustainability development concept recognizes that businesses must then continuously meet society's needs for goods and services without destroying the natural and social capital.

Malaysia is an exception rather than the norm" and users are demanding for more disclosure of information, which encompasses a much wider scope than traditional stewardship reporting.

On the other hand, social information is always regarded as being less important, hence neglected. Nik Nazli (1999) in her study concluded that individuals who are making investment decisions attached more importance to financial accounting information compared to social accounting information, however, individuals still will not invest in a company that is financially viable but performs poorly on a social dimension[2]. Also, as established by Tilt (1994), "pressure groups consider the social responsibility of companies to be wide ranging, as they expect companies not only to disclose their own activities, but also those of their subsidiaries".

1.1.1 The Role of Business in Society

The long existing relationship and interdependence between businesses and society cannot be argued and is of crucial importance to economic development. The present challenge will be to create the conditions where social and environmental benefits go hand in hand with competitive advantage. Contrary to Friedman (1962) who argued that businesses only has one responsibility, that is, to use its resources and engage in activities designed to increase its profits, various authors have suggested that businesses and society are dependent on each other (Goldberg, 1971; Mathews, 1994). Cannon (1994) further explained the role of businesses in the society and categorized business role into economic role and social role. The economic roles of business to society are:

- *The economic and production tasks*: Land maintenance, food production, manufacture and distribution of goods and services and all tasks associated with the creation and maintenance of wealth;

[2] Although her study only concentrated on the water industry in the UK, this was consistent with the findings of Buzby and Falk (1979) who did a survey on the interest in the social information in the mutual funds industry. Hence, it can be said that social information in the financial statement are also important, if not equally important, in making decisions.

- *The maintenance tasks*: Holding the society together maintains stability and ensures its continuation;
- *The adaptive functions*: Providing the means by which the society responds to change such as research and creative activities;
- *The managerial and political tasks*: Providing the institutions and systems to identify and implement policy for the related agencies to arbitrate and assess conflicting demands and expectations.

The social role is the other role of business to the society as the society expects many things from the corporate sector from the basics such as wealth and job creation to arts sponsorship. *Table 1* below illustrates some of the demand, which the different stakeholder place on firms.

TABLE I: Stakeholder and Their Perceptions

STAKEHOLDER	EXPECTATIONS	
	Primary	**Secondary**
Owners	Financial return	Added Value
Employees	Pay	Work satisfaction, Training
Customers	Supply of goods and services	Quality
Creditors	Credit worthiness	Security
Suppliers	Payment	Long Term Relationship
Community	Safety and security	Contribution to community
Government	Compliance	Improved competitiveness

Source: Cannon (1994), "*Corporate Responsibility*", p.45

As it can be seen from the above table, the secondary expectations are those, which are considered as social information, and these are the information, which currently are not governed by any standard but are expected to be disclosed in the annual report of the companies. Hence, the challenge to respond to the various needs of the society is a broad issue and it is endless to discuss.

Reporting the social information is one of the ways that enables the business to be more transparent to the society as whole and it is also one of the areas that brought concerns to many including the accountancy professional bodies. For instance, the Australian CPAs are urging all companies to become accountable for environmental, social and economic costs and factor these into their financial reports. This method of accounting, called triple bottom line reporting, links in with the objectives of sustainable development (Priest, 1999). The triple bottom line approach does not necessarily imply a new concept of what companies are primarily for; rather, it extends the time horizon over which the full range of company's interest should be assessed. Hence, efforts must be made in finding accurate, useful and credible indicators of progress in terms of economic prosperity, environmental quality and social justice, businesses tend to overlook.

1.1.2 The Role of the Accounting Profession in the Society

The accounting profession, like businesses, depends on the society and similarly, society needs truth and fairness from the accounts prepared by the accountants (Perks, 1993, p.14). According to Willmott (1986), the *functionalist interpretation* of the role of the accounting profession explains that professional activity of the accountants is seen as being in the interest of the society as society needs to be protected from the exploitation by unqualified accountants i.e. those not having the expertise that they claim. This is also supported by Perks (1993, p. 15) that the profession will not survive and prosper unless they are seen as providing something valuable to society. Holmes (1976) was of the opinion that the *managerial view* of business responsibility has resulted in that the managers of large corporations are responsible for balancing the claims and rights of many diverse groups. This *managerial view* allows for and encourages conscious effort by business managers in promoting the public goods (Holmes, 1976, p. 35)

As the accountants are the preparers of the annual report which is expected to be reporting the social information, undeniably, accountants play a significant role in meeting the stakeholders' expectations. For this reason, the understanding and the attitude of the accountants towards the reporting of the social information cannot be ignored. Hence, in addition to exploring the current reporting of social information in Malaysia and establishing the potential determinants of the disclosure amount, this study will also seek to determine the level of awareness and attitude of the accounting practitioners towards social responsibility reporting.

1.2 CORPORATE SOCIAL RESPONSIBILITY REPORTING (CSRR)

The traditional practice of financial reporting that is the disclosure of financial information, both monetary and non-monetary, has somewhat ignored the impact of the business on the society. The concept of social responsibility reporting assumes that the companies are to be socially conscious to discharge their social obligations for the well-being of the society. Hence, businesses are under pressure from its stakeholders to report to them, as to what extent it has been successful in protecting their interest. However, the concept of social reporting may not be clear enough to all especially the corporate minds.

1.2.1 Definition of Corporate Social Responsibility Reporting (CSRR)

According to Bowen H.R. (1953), Social Responsibility is defined as "the obligation of the manager to pursue those policies to make those lives of action which are desirable in terms of objectives and values of our society". He further elaborated that the responsibility of business is to understand the needs and requirements of the society and thus direct its energies to fulfill them. Business should undertake anything, which is in favour of the society. The social responsibility of business can be studied into availability of goods, supply of quality goods, cooperation of the government, creation of more employment and utilizing national resources properly.