

## CHAPTER 4: RESEARCH FINDINGS

### 4.1 INTRODUCTION

This chapter presents the findings from the tests of the variables explained in Chapter 3. Both univariate and multivariate tests were performed to test the hypothesis. Also, the findings of the survey conducted on the perceptions and attitudes of the accounting practitioners will be discussed in this chapter.

### 4.2 QUANTITY OF SOCIAL DISCLOSURE

The results of the descriptive analysis of corporate social disclosure are described in *Table II* and *Table III* below.

**TABLE II – Summary of social information disclosure**

	Disclosing companies (making at least one disclosure)	Disclosing companies as a percentage of total sample (incidence)	Number of disclosed sentence (amount)	Disclosed sentence as a percentage of all disclosed sentence
<b><u>THEME</u></b>				
Environment	42	16	1,296	7
Energy	2	1	39	1
Products/Customer	116	45	4,254	24
Community	83	32	3,819	22
Employee (Health & Safety)	27	10	770	4
Employee (Others)	211	82	7,142	40
General	13	5	348	2
<b>TOTAL</b>			<b>17,668</b>	<b>100</b>
<b><u>EVIDENCE</u></b>				
Monetary	134	52	2,286	13
Non-monetary	149	58	6,584	37
Declarative	138	53	8,798	50
<b>TOTAL</b>			<b>17,668</b>	<b>100</b>
<b><u>NEWS</u></b>				
Good	181	71	17,433	98
Bad	5	1	35	1
Neutral	53	21	200	1
<b>TOTAL</b>			<b>17,668</b>	<b>100</b>

From the above, the total sentences disclosed are classified into three main categories that are *theme*, *evidence* and *news*. These are then further classified into various sub-headings. Consistent with the findings of similar studies (Lau, 1994; Hackston *et al.*, 1996), companies make most disclosure on human resource, product/customers and community involvement, with a percentage of 40 per cent, 24 per cent and 22 per cent respectively.

As can be seen from the incidence rates, it might appear that the social information reported as shown on the second column is fairly represented, that is monetary (52 per cent), non-monetary (58 per cent), and declarative (53 per cent). A similar finding was discovered by Hackston *et al.*, (1996) for New Zealand companies. Companies making declarative disclosures on the average, disclose about 42 sentences each, contrary to monetary disclosures that is on average only 11 sentences each. Consistent with findings of studies done in other parts of the world, good news statements dominates, accounted for 98 per cent of total disclosure. As for the good news disclosure, the average per company is 84 good news sentences as opposed to only 1 bad news sentence per company.

The fourth column is the most meaningful as it is able to provide an insight as to the percentage of sentences disclosed from the total disclosures. It enables a further analysis to be made rather than relying on the incidence rates alone<sup>17</sup>. For instance, although it is good to know that roughly about 10 per cent of the companies disclosed some information on employees with regards to their health and safety but most of them only disclose a small quantity of information as employee (health & safety) theme only accounted for 4 percent of the total disclosure sentences. On average, employee (health and safety) disclosures made by companies are only 4 sentences each as opposed to 34 average

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<sup>17</sup> According to Hackston and Milne (1996), there exist a major problem by only relying on incidence rates due to its misleading nature in the sense that they treat companies which make one or more disclosures are equal e.g. a company making one disclosure on the environment is treated as equal to a company that discloses 50 sentences on the environment.

sentences for disclosures on employees (others). The fourth column also indicates that although many companies makes monetary disclosure but half of the disclosures are declarative statements.

In terms of the total amount of sentences disclosed, 209 companies out of 257 from the total sample made some form of social disclosures amounting to 17,668 sentences with an average of 85 sentences, which is presented in *Table III*. The most disclosures made by a single company are 789 sentences. Converting the total sentences disclosed to page, a total of 294.34 pages were disclosed altogether representing an average of 1.4 pages with the maximum number of pages disclosed is 14.59 pages.

**TABLE III – Descriptive for social disclosure measures in Malaysian companies**

	Number of Sentences	Measured Pages	Derived Pages
Total	17,668	294.34	468.7
Average	85	1.4	2.3
Minimum	2	0.01	0.03
Maximum	789	14.59	20.68
<i>Note:</i> Total number of companies in sample is 257; the number that disclosed is 209			

As can be seen from *Table III* above, measurement method of derived pages grossly overestimates the amount of social information disclosed. This method was, however, supported by Hackston *et al.* (1996) that this particular measurement method overestimates each company systematically and holds up very well as a *relative* measure of disclosure.

#### 4.3 CORPORATE CHARACTERISTICS AND SOCIAL DISCLOSURE

As described in the previous chapter, six independent variables are employed to test the hypotheses developed. *Table IV* presents the descriptive statistics of independent variables for two sub-samples: (1) **Disclosing** sample of companies that disclose some form of social information and (2) **Non-disclosing** sample of companies that did not make any disclosure on social information. As can be seen from *Table IV* below, firm size is measured using market capitalization and listing.

**Table IV: Disclosure by Independent Variable**

Variable	Sample N	Disclosing company		Non-disclosing company	
		n	%	n	%
<b>Firm Size</b>					
<u>Market Capitalization</u>					
Large ( $\geq$ RM100 million)	245	199	83.3	46	16.7
Small ( $<$ RM100 million)	12	10	81.2	2	18.8
	257	209		48	
<u>Listing</u>					
Large (Main Board)	245	198	80.8	47	19.2
Small (Second Board)	12	11	91.7	1	8.3
	257	209		48	
<b>Leverage</b>					
High ( $>66.7\%$ )	135	107	79.3	28	20.7
Low ( $<66.7\%$ )	122	102	83.6	20	16.4
	257	209		48	
<b>Auditor</b>					
Big five	208	173	83.2	35	16.8
Non-big five	49	36	73.5	13	26.5
	257	209		48	
<b>NACRA</b>					
Awarded	32	32	100	0	0
Non-awarded	225	177	78.7	48	21.3
	257	209		48	100
<b>Industry</b>					
Construction / Infrastructure	19	16	84.2	3	15.8
Consumer Product	24	22	91.7	2	8.3
Industrial Product	41	32	78.1	9	21.9
Trading & Services	78	66	84.6	12	15.4
Finance	40	31	77.5	9	22.5
Properties / Hotel	34	27	79.4	7	20.6
Plantation / Mining	21	15	71.4	6	28.6
	257	209		48	

**Note:**

**Leverage:** Level of financial leverage measured as total book value of debt including provision for liabilities and charges divided by shareholders' funds, coded 1 for high and 0 for low leverage;

**Auditor:** Audit firm, coded 1 for companies audited by "Big-5" audit firms, and 0 otherwise

**Industry:** Industrial membership as per KLSE listing

**Size:** Firm size is measured by market capitalization and listing membership

As for the audit firm variable, 83 percent of companies that are audited by the 'big-five' disclosed social information in its financial statement as compared to only 73 per cent of 'non big-five' audited companies.

Segregating the sample into the predetermined level of financial leverage, about 80 per cent of disclosing companies are of high leverage i.e. debt to equity ratio is more than 66.7 per cent, as opposed to only 20 per cent of high leverage firms do not disclose any social information in their annual reports. However, looking at low leverage firms, a higher percentage of about 84 percent of companies made social information disclosure.

All 32 NACRA awardees companies did disclose some form of social information in their annual statements, which is reflected in the 100 per cent figure in the above table.

About 92 per cent of Consumer Product companies made some form of social information disclosure followed by Trading/Service companies with 84 per cent whilst the lowest percentage came from Plantation/Mining industry. Similar result was discovered by Lau (1994) with regards to Plantation/Mining companies.

These variables are then further analyzed using both univariate and multivariate analysis in the following section to determine whether the amount of disclosures is related to firm-specific characteristics.

#### **4.3.1 UNIVARIATE ANALYSIS**

It is shown in *Table V* below the two size measures together with leverage and NACRA have higher mean values and significant at  $p = 0.05$ . The results of *Table V* indicate that, as hypothesized, firms that are more likely to disclose social information are larger and have higher leverage percentage. However, the hypotheses for profitability, the type of audit firm are not supported. The findings

that none of the profitability measures are significantly associated with social disclosure are consistent with the findings of similar study from another countries (see for example, Hackston and Milne (1996), Roberts (1992) and Patten (1991)). However, this seems to contrast with the earlier finding of Lau (1994).

**Table V: Descriptive Statistics of Independent Variable**

Variable	Group 1		Group 2	
	Mean	Standard Deviation	Mean	Standard Deviation
Size				
Market Capitalization	0.95	0.21	0.86	0.42
Listing	0.95	0.22	0.89	0.14
Leverage	0.58	0.50	0.51	0.45
Auditor	0.73	0.38	0.83	0.45
NACRA	0.15	0.36	0	0
Profitability				
Return on Asset	1.5	12.66	1.54	10.32
Return on Equity	3.06	69.73	4.89	32.5
Industry:				
Consumer Product	0.11	0.31	0.04	0.2
Industrial Product	0.15	0.36	0.19	0.39
Construction / Infrastructure	0.08	0.27	0.06	0.24
Trading & Service	0.32	0.47	0.25	0.44
Finance	0.15	0.36	0.19	0.39
Properties / Hotel	0.13	0.34	0.15	0.36
Plantation / Mining	0.07	0.26	0.13	0.33
Group 1 are companies that did disclose some form of social information, n=209				
Group 2 are companies that did not disclose any social information, n=48				

From *Table VI* below, it can be seen that the Chi-square test employed indicated that the hypotheses for size, industry, financial leverage and NACRA are supported but profitability and the type of audit firm hypotheses are not. A similar conclusion was reached by Hackston and Milne (1996) for the size and profitability hypotheses but not for industry. This has also confirmed the findings of Lau (1994) in his study on Malaysian companies of 1992 annual report on the association between size and social information disclosures.

**Table VI: Univariate Results**

Variable	Chi-square Test	Significance Value
Size		
Market Capitalization	9.342	-0.002
Listing	8.252	-0.004
Profitability		
Return on Equity	7.929	-0.795
Return on Asset	8.02	-0.658
Leverage	12.397	(0.115)*
Auditor	8.396	-0.205
Industry	4.46	(two-tailed) -0.061
NACRA	1.609	-0.004
Figure in parenthesis are one-tailed probabilities unless specified otherwise		
* Significance at 15% level.		

The results from Spearman Correlation Coefficient test conducted are illustrated in *Table VII* underneath.

**Table VII: Spearman Correlation for Independent Variables**

	Return on Asset	Return on Equity	Market Capitalization	Listing	Auditor	Industry	NACRA
Return on Asset	0.604	1					
Market Capitalization	-0.011	0.229	1				
Listing	-0.011	-0.017	0.301	1			
Auditor	-0.048	-0.009	0.127*	-0.014	1		
Industry	0.013	0.115	-0.015	-0.2	0.082	1	
NACRA	0.055	-0.033	-0.14*	-0.14*	0.093	-0.116	1
Leverage	0.018	-0.018	0.048	0.048	-0.005	0.025	0.004

Correlation is significant at the 0.01 level (2-tailed).

The table above presents Spearman Correlation between all the independent variables<sup>18</sup>. The strongest correlation is between the two profitability measures i.e. Return on Asset (ROA) and Return on Equity (ROE) at a magnitude of 0.604. The correlation between ROE and the two measures of sizes are (0.011). Also,

<sup>18</sup> Pearson Correlation was also undertaken with similar conclusions obtained.

the correlation between both measures of size is quite strong with 0.301. High correlations among independent variables may give rise to multicollinearity but in this case, they are not large enough to cause a problem<sup>19</sup>. Moreover, as ROA and ROE are alternative measures for profitability and hence are not used in the same regression. A similar case applies to the two measures of size i.e. market capitalization and listing. Both market capitalization and listing tend to have the same correlation with some variables. The correlation between size and NACRA is -0.14 and the correlation between size and leverage are 0.048. Leverage tends to have weak correlation with other variables; the weakest are between NACRA and Auditor with only 0.004 and -0.005 respectively.

#### **4.3.2 MULTIVARIATE ANALYSIS**

To supplement the univariate test, a cross-sectional logistic model was employed which will examine the combined ability of all variables to explain the decision of how much social disclosure to be made. It will also provide an indication of the statistical significance of the individual explanatory variables as well as for the overall model. A similar regression model has also been used to test the characteristics of various disclosure items (Chow, 1982; and Bradbury, 1992). The multivariate results are presented in *Table VIII*.

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<sup>19</sup> A common rule of thumb is the correlations between -0.70 and 0.70 do not cause difficulty (Mason, Lind and Marchal, 1999)



**Table VIII: Regression With Number of Sentences As Dependent Variable**

	Regression I		Regression II	
	B	Significance	B	Significance
Constant	-47.544		-23.628	
Market Capitalization	85.639	0.004		
Listing			80.204	0.004
Auditor	3.653	0.812	8.336	0.588
NACRA	174.992	0	173.451	0
Leverage	-19.284	0.118*	-18.271	0.138*
Return on Asset			-0.264	0.593
Return on Equity	0.035	0.716		
Industry				
Construction	34.367	0.202	8.606	0.728
Consumer	12.547	0.608	-6.805	0.759
Finance	23.863	0.258	2.303	0.876
Plantation	40.12	0.115	17.318	0.46
Properties	19.134	0.383	-8.021	0.681
Trading	21.735	0.241	-0.705	0.166
Industrial Product	-0.68	0.181	-20.683	0.264

\* Significant at 15% level

A first regression model with number of sentences as the dependent variable was run using all the variables together with market capitalization and ROE (Regression I) and a second model was done by replacing market capitalization with listing and ROE with ROA (Regression II). As can be seen from the above, the only significant variables are firm size (both market capitalization and listing) and NACRA. These are demonstrated by a lower significance value as compared to others. Leverage, similar to univariate test, is only significant at 15% level. Hence it can be said that larger firms have the tendency to disclose more social information than smaller firms and NACRA-awarded companies disclose more information than non-NACRA awarded. Therefore, it can be said that the findings of the multivariate test is consistent with those of univariate test conducted earlier.

From the regression results above, a different coefficient value for each industry revealed the differences in the amount i.e. quantity of social disclosures sentences made. It can be seen that Construction/Infrastructure and Plantation/Mining companies have made more social information disclosures in their annual report as opposed to companies in other industries. This is inferred from a high coefficient value from the regression equation. The regression model was re-run using two other measurement methods (page measurement and derived page measurement) and both give similar result. However, it is interesting to note that derived page measurement method tend to overestimate the coefficient of the variables. The same method has produced a similar finding in the Hackston and Milne (1996) study. Therefore, it can be said that the number of sentence and page measurement methods are able to produce a consistent results but derived page measurement method will grossly overestimate the findings. Further evidence on this is available in *Table IX* below.

**Table IX: One-way ANOVA To Test Mean Differences Between Industry**

	Number of Sentences	Page Measurement	Derived Page Measurement
Construction / Infrastructure	104.5	1.339	2.347
Consumer Product	69.32	1.212	1.918
Finance	78.475	1.282	2.176
Industrial Product	49.561	0.917	1.31
Plantation / Mining	96.762	1.352	2.06
Properties / Hotel	54	1.045	1.425
Trading & Services	64.429	1.118	1.879
Significant Value	0.006*	0.092*	0.266

\* Significant at 10% level

In addition to examining the association between the variables, one-way ANOVA test was performed with the purpose of assessing whether any significant differences exist between the mean amounts of three disclosure measurement methods between the seven types of industry.

The One-Way ANOVA test revealed that significant differences exist between various types of industries for two measures of social disclosure amount (number of sentences and measured pages). Derived page measurement method, however, failed to determine whether significant differences exist between industries. Both number of sentences method and page measurement method indicates that Construction/Infrastructure companies disclose most social information in their annual report. This is followed by Plantation/Mining sector and Finance. The least disclosures are of those companies in the Industrial Product sector. This is consistent with the study conducted by Che Zuriana *et al.* (2000) who found that Finance and Construction sectors provide a higher percentage of corporate social disclosure. As indicated in *Table IV* in the earlier section that although Plantation/Mining has the lowest percentage of disclosing companies, it is verified that despite the low percentage of disclosing companies, in terms of quantity, this particular industry disclose most social information after companies in Construction/Infrastructure industry.

#### **4.4 VIEWS AND PERCEPTIONS OF THE ACCOUNTING PRACTITIONERS TOWARDS SOCIAL RESPONSIBILITY REPORTING**

##### **4.4.1 Number of respondents of the questionnaire**

A total of two thousand questionnaires were issued to accounting practitioners' acquired from the Malaysian Institute of Accountants (MIA) members' database. Please refer to *Appendix IV* for sample of the questionnaire. Out of the total questionnaire issued, 256 responses were received and only 254 were found to be useable. The remaining two were incomplete which renders them unusable for the purpose of this study. Sixteen questions in the survey require the respondent to state their level of agreement of the given statements. The responds are measured using a scale ranging from 1 denoting strongly disagree to 5 denoting strongly agree. The remaining six questions require the respondents to rank the relative importance of the statements and it is further elaborated in section 4.4.4 below.

A mean score was constructed for each of the questions in the survey form and based on the respondent's ranking of the relative importance given. The respondents' rating for each of the information items was summed to determine the weighted mean scores. Following Tan *et al.* (1990), mean score of 4.0 and above will be considered as important and mean score below 4.0 is considered as less important. To be consistent with these, a mean score of 4.0 and above will denotes agreement to the given statement and otherwise.

#### **4.4.2 Understanding of the concept of social responsibility**

By and large, the responses demonstrated a clear understanding of the concept of corporate social responsibility from the mean scores of Question 2 and 3. Then again, social responsibility accounting is often misconstrued as only dealing with environmental issues as demonstrated by a mean value of less than 4.0 for Question 1.

#### **4.4.3 Perceptions of the accounting practitioners towards social responsibility**

Questions 4 and 5 try to uncover the attitudes of the respondents toward the social role of the corporation. A mean score above 4.0 for Question 4 indicates that respondents agreed to the suggestion that business is responsible to help in solving social problems that the businesses directly create.

Most respondent disagree to the suggestion that solving social problems should only be done when there is profit potential but should be done even if there is no profit potential and even though doing so may reduce profit. A similar question posed by Louis (1969) revealed that a growing number of executives believe that social involvement is necessary, even though short-run profit returns are reduced and no long run returns are probable. Louis (1969) also identified social problems, which executives believed should be given top priority and revealed that many executives felt that business had to make "adequate" profit before assuming social responsibilities, which may not be profitable. However, on the

question whether solving social problems can be profitable, a low mean value of 2.57 illustrates that most respondents disagree to the suggestion. Further, most respondents approved that in difficult economic period, companies should cut back on social action program.

Most accounting practitioner surveyed disagree with the suggestion that most managers are too busy to worry about their company's social objectives. Also, the respondents think that corporate social action program will create a favourable public image and nevertheless will preserve the business as a viable institution in the society. This is consistent with the findings of the survey by Holmes (1976) who found that almost every respondent believed that "corporate reputation and goodwill will be enhanced, and a large percentage believed that social and economic system would be strengthened by corporate social involvement".

#### **4.4.4 Views on the importance of corporate responsibility area**

Most respondents ranked human resource issues as the most important social information disclosure followed by community involvement and pollution control/ environmental impact. The least important area discovered from the survey is resource conservation measures. It is interesting to note that the ranking given is similar to the disclosure practice of sampled companies found in the preceding section i.e. the area that are disclosed most are human resource whilst the least is energy/resource conservation measures. Perhaps, the views of the accounting practitioners reflect in the disclosure practices of companies in Malaysia.

#### **4.4.5 Views on the need for audit and for standard**

On the question of whether audit of the social information is necessary, the majority of the respondents are of the opinion that the requirement for the audited social information is unnecessary. This is demonstrated by most answers on this question was either strongly disagree or disagree with only a small percentage of respondent agreeing to the necessity of social audit. This may be due to two

reasons; first is there is a possibility that the accounting practitioners themselves have less confidence in the audited numbers. The second reason is that maybe they feel that the social information are not as important as other financial information that it requires audit before it can be of use.

Most of the respondents are of the view that a specific standard for social reporting need to be established to govern the reporting of social information. This is consistent with the findings by Thong and Teoh (1985) nearly two decades ago, however, until now, no rules or standard whatsoever are established for this purpose. Also, government intervention through policies is viewed as necessary in order to encourage social reporting in Malaysia.

#### 4.5 CONCLUSION

This chapter reports on the disclosure practice of sample companies and whether it is related to firm-specific characteristics. Human resource and community involvement received the most attention in the annual report whilst energy-related disclosures received the least. Three types of measurement methods have been employed and only number of sentences and page measurement method provide a consistent results. The third method i.e. derived page measurement tends to overestimate the amount of disclosures made and found to be inconsistent with the other methods.

Supporting evidence is found in both univariate and multivariate test for size, NACRA and financial leverage hypothesis. In addition to that, industry membership dictates the amount of disclosures made. It is found that firms that made social information disclosure, on average, tend to be larger and have high leverage. Also, NACRA award winners tend to disclose more than non-award winner. Further, companies in certain industries like Construction/Infrastructure and Plantation/Mining have a higher disclosure amount than firms in other

industries. However, the auditor and profitability hypotheses are not supported in either univariate or multivariate test.

The survey conducted on the accounting practitioners revealed that most of them have the general understanding of the social reporting issues. Their positive perceptions towards the issue are a good start at improving the social reporting practices in Malaysia. The ranking on the importance of social reporting are surprisingly similar to the disclosure practices of the sample companies. Lastly, although audit of the social information in the annual report is considered unnecessary, standard on social reporting as well as government intervention through policies are viewed as essential.

The next chapter will provide the conclusion and limitation of this study together with the recommendations for future research.