

SHARIAH STATUS, BOARD GENDER DIVERSITY AND THE LOCATION AND EXTENT OF CORPORATE SOCIAL RESPONSIBILITY REPORTING

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ABSTRACT

The disclosure of Corporate Social Responsibility (CSR) has been mandated as a requirement in Malaysian firms' annual reports starting from the year 2007. However, the framework provided by Bursa Malaysia does not indicate specific location for disclosure. As a result, a pilot study conducted on the 2009 annual reports revealed that although all the firms disclose CSR information in the annual reports, it is also found that there are two different locations for reporting: 63% of the sampled companies have a stand-alone segment in annual reports, while the remaining 37% disclose their CSR activities as part of the Chairman's Statement, Corporate Governance Statement, Manager's Report, Operations Review segment, Additional Compliance Information segment and Other Information segment. Previous studies indicate that Shariah-compliant firms are expected to be socially responsible and to provide full disclosure while the presence of women on the board of directors is strongly linked to philanthropic activities. Based on these insights, we predict that Shariah-compliant firms and firms having board gender diversity will have greater CSR activities and disclosure via stand-alone CSR reports. Therefore, the aim of this study is to see whether Shariah status and the presence of women on the board of directors and having women as CEO are associated to the location and extent of CSR reporting. The 2009 annual reports of 54 Malaysian firms will be examined and the extent of CSR will be measured by the number of words, sentences and pages. The result of this study will provide insights on the relevance of Shariah status, having women on the board of directors and as CEO with respect to CSR reporting

Keywords: Corporate social responsibility, Shariah, Women directors, Women CEO, Malaysia

Introduction

Corporate Social Responsibility (CSR) has recently received much attention in Malaysia as it stresses on the importance of improving the firms' performance while at the same time preserving the rights of various stakeholders. The basic concept underlying the term CSR consistently referring to the notion of the voluntary actions or commitments pursued by organizations to address economic, social and environmental impact of their business operations, while at the same time preserving the interest of their diverse stakeholders (Christensen, Peirce, Hartman, Hoffman, & Carrier, 2007; Siwar & Hossain, 2009). By engaging themselves in CSR activities and commitments, organizations are expected to experience better financial performance, access capital, reduced operating costs, enhanced brand image and reputation, increased sales and customer loyalty and increased productivity and quality (csnetwork.com, 2004).

CSR related research in Malaysia has become one of the areas of interest and covers variety of issues. One of the issues that had been highlighted is in relation to the motivation for reporting, where a number of corporate governance characteristics have been identified as factors which lead to CSR reporting. Among the characteristics are government ownership (Amran & Devi, 2008; Ghazali, 2007; Said, Zainuddin, & Haron, 2009), director ownership (Ghazali, 2007), audit committee (Said, et al., 2009), ownership concentration (Said, et al., 2009), Malay directors (Haniffa & Cooke, 2005), foreign shareholders (Amran & Devi, 2008; Haniffa & Cooke, 2005) and non-executive directors (Haniffa & Cooke, 2005). However, limited studies were found on board gender diversity and its association to the location and extent of CSR reporting, although a few foreign researches concluded that the existence of women directors is related to better philanthropic activities (Wang & Coffey, 1992; Williams, 2003).

Another factor that is becoming a great concern in enhancing CSR reporting is the influence of Islamic values. A research on CSR practice in an Islamic bank, identified Islamic values as the vital force behind the CSR commitments (Sobhani, Zainuddin, & Amran, n.d). In Malaysia, the firms listed on the main board of Bursa Malaysia can be differentiated between Shariah-compliant and non-Shariah-compliant firms, where the former indicate among others, the operations of the firm is free from elements that are opposed by the Shariah law such as gambling, gaming, riba', non-halal related products and tobacco related products. A firm will be granted with Shariah-compliant status upon meeting with the standard criteria established by the Shariah Advisory Council

(SAC) of Securities Commission Malaysia. Islamic values stress on the accountability, transparency and brotherhood, which can be seen as related to the concept of CSR. Therefore, a Shariah-compliant firm possess a status that the firm operations that is in line with the Islamic concept of CSR.

The disclosure of CSR in Malaysia has been made a requirement starting from the year 2007 (Ministry of Finance, 2006), which covers four focal areas, namely: the environment, workplace, marketplace and community (Bursa Malaysia, 2006, 2006b). Since then, limited evidence can be found on the location and extent of CSR reporting by Malaysian listed firms. Baydoun and Willett (2000) indicate that Islamic accounting should possess two main criteria: (1) full disclosure; and (2) social accountability, while Williams (2003) indicate that the presence of women on board is associated to philanthropic activities. Based on these insights, it was predicted that firms with Shariah-compliant status and firms with board gender diversity will have a proper disclosure via a stand-alone CSR reports. Therefore the aim of this study is to see if Shariah status and board gender diversity are associated with the location and the extent of CSR reporting among Malaysian firms.

Problem

In Malaysia, before CSR reporting being made a requirement, a number of researches had been done in relation to the location and extent of CSR reporting. Among the findings concluded that more than 80% of Malaysian firms have some form of CSR disclosure (Ahmad, Sulaiman, & Siswontoro, 2003; Thompson & Zakaria, 2004), while no distinct pattern or specific locations were identified where mostly being reported in a section of Chairman's Statement and Operation's Review (Ahmad, et al., 2003). Nevertheless, this situation was not surprising since it was the foundation period of CSR development in Malaysia.

CSR reporting has been mandated as a requirement in the annual reports of Malaysian firms starting from the year 2007 (Ministry of Finance, 2006). In responding to the requirement, Bursa Malaysia had launched the "CSR Framework for Malaysian PLCs", where the disclosure of CSR activities should focus on four focal themes or areas, namely the environment, the workplace, the community and the marketplace (Bursa Malaysia, 2006, 2006b), however, no specific location was mentioned in the framework. As a result, a preliminary study conducted on the 2009 annual reports of Malaysian firms reveals that the locations for CSR reporting can be

classified into two: (1) 63% of the firms report CSR in a stand-alone CSR reports while (2) 37% of the firms reports CSR in the Chairman’s Statement, Corporate Governance Statement, Additional Compliance Information segment and Other Information segment. Furthermore, when t-tests are conducted on the preliminary study data based on the number of words, sentences and pages, the result reveals that there is a significant difference between the two locations of reporting. Firms with stand-alone CSR reports indicate a mean of 898.53 words, 37.94 sentences and 2.08 pages compared to only 154.50 words, 6.95 sentences and 0.26 pages by firms without stand-alone CSR reports. This situation highlights the lack of standard and uniformity in CSR reporting among Malaysian firms, plus the indication that firms without stand-alone CSR reports do not take CSR activities and disclosure seriously. The result of the preliminary study analysis is shown in the Table 1 below:

Table 1

Preliminary Study data analysis

CSR Location	Number of firms	Mean (Number of)			Std. Deviation		
		Words	Sentences	Pages	Words	Sentences	Pages
Stand-alone	34	898.53	37.94	2.08	1007.06	36.33	2.24
Not Stand-alone	20	154.50	6.95	0.26	97.66	4.16	0.21

Number of words: F = 10.565 Sig = 0.002
 Number of sentences: F = 14.812 Sig = 0.000
 Number of pages: F = 15.723 Sig = 0.000

One of the factors that need to be considered in shaping the disclosure of CSR is the Islamic influence. The concept of CSR has been deeply rooted in Islam via the concept of khalifah (vicegerency) (Dusuki, 2008). This concept requires firms to not only act to the benefit of shareholders’ resources, but at the same time embrace the environmental issues and practice the concept of ukhuwwah (brotherhood) for the sake of social justice. With the presence of Islamic values that uphold the concept of vicegerency and brotherhood, it is not surprising that Islamic firms will possess two main qualities: social accountability and full disclosure (Baydoun & Willett, 2000), thus firms with Islamic influence will be more involved in activities which involves preserving the rights of the environment and community and at the same time, provide sufficient information to its diverse stakeholders. Moreover, Islamic values has been identified as a vital force behind the CSR disclosure of Islamic banks (Sobhani, et al., n.d), which signals that firms with Islamic influence have

a high commitment to its stakeholders. However, although the existence of Islamic values in firms indicate the act of social accountability and full disclosure, recent research shows that Islamic banks disclose less CSR information than expected (Farook, Lanis, & Hassan, 2011; Maali, Casson, & Napier, 2006).

The contradictions found in these previous studies trigger the question on the role of Shariah-compliant status held by 89% of Malaysian PLCs (Securities Commission Malaysia, 2011) to uphold the engagement in CSR activities and to provide full disclosure on those activities. A Shariah-compliant status will be granted to a firm which do not involved in specific criterion as stated by the Shariah Advisory Council (SAC) of Securities Commission Malaysia (SC). A Shariah-compliant firm should have its own Shariah adviser to act as the monitoring device in relations to its activities. A Shariah-compliant firms are those firms which do not involve in one or more of these activities:

- (a) Financial services based on *riba* (interest);
- (b) Gambling and gaming;
- (c) Manufacture or sale of non-halal products or related products;
- (d) Conventional insurance;
- (e) Entertainment activities that are non-permissible according to Shariah;
- (f) Manufacture or sale of tobacco-based products or related products;
- (g) Stockbroking or share trading in Shariah non-compliant securities; and
- (h) Other activities deemed non-permissible according to Shariah

Shariah status held by Malaysian firms gives indication that the firms do not engage in unethical activities and activities which are not permissible according to Shariah. Therefore, it is important to see if the Shariah status does affect the location and extent of CSR reporting among PLCs in Malaysia. The indication from the findings will give insights on the role of Shariah status in shaping CSR activities and disclosure plus the role of the Shariah advisers of the firms in guiding the firms' operations towards social and environmental commitments.

Another factor that needs to be considered is the board gender diversity. Previous evidence shows that the existence of women on the board of directors is linked to firms' philanthropic activities (Bernardi & Threadgill, 2010; Williams, 2003), community involvement and employee benefits (Bernardi & Threadgill, 2010). Women directors are seen to be more pro-social behavior (Kruger, 2010) and more oriented on philanthropic

activities compared to their male colleagues who are economically oriented (Ibrahim & Angelidis, 1994) while firms with women on board will improve CSR ratings which in turn will also improve firm reputation (Bear, Rahman, & Post, 2010). Furthermore, previous findings also found positive effects of women in top management with firm performance (Smith, Smith, & Verner, 2005). These findings give some indication that the presence of women on board will affect the way CSR activities being reported, and signifies that women directors will influence the location and content of CSR reporting. Thus, the prediction is that firms with women directors on board will report more CSR activities and the reporting will be made systematically in stand-alone CSR Reports.

Chief Executive Officer or CEO in a firm is the highest ranking corporate officer who stands as the highest level of decision maker in a firm. As the highest level decision maker, a CEO's view on CSR is an important factor to determine the level of social performance of a firm. Our prediction is that since women a more pro-social behavior (Kruger, 2010), the level of CSR disclosure will be higher if a firm has a women for CEO. The findings of this research with regard to the board gender diversity will be beneficial as Malaysia has started to notice the role played by women in handling key positions, where The Honorable Prime Minister of Malaysia, Datuk Seri Najib Tun Razak has announced that the Cabinet has approved the policy of ensuring that every private sector to have 30% of women at their decision-making level (Bernama, 2011, June 27).

Realizing the important role played by Islamic values and the presence of women on the board of directors and as CEOs, the objectives of this study are (1) to investigate the location and extent of CSR reporting among the Malaysian PLCs; (2) to explore if there is any difference in the location and extent of CSR reporting between Shariah-compliant and non-Shariah-compliant PLCs and firms with board gender diversity or without gender diversity; and (3) to examine if Shariah status and board gender diversity will influence the location and extent of CSR reporting.

Methodology

The population for this study will be the Malaysian firms listed on the Main Board of Bursa Malaysia as at 31 December 2009 and the unit of analysis is the 2009 annual reports. Samples will be selected using Simple Random Sampling technique. This type of sampling falls under the probability sampling method, where each item in a population has an equal opportunity to be chosen as a sample (Cavana,

Delahaye, & Sekaran, 2001; Dane, 2011; Kumar, 2011; Zikmund, Babin, Carr, & Griffin, 2010). Probability sampling enables the findings to be generalized throughout the population (Kumar, 2011) and since the samples are selected at random, it will reduce the bias inherent to non-probability sampling (Zikmund, et al., 2010). The random numbers used for the sample selection will be generated from Microsoft Excel Random Number generators. The minimum suitable number of samples required for pilot testing is 30 (Johanson & Brooks, 2010), therefore, during the initial sampling stage, 65 firms will be selected to avoid the problem of annual report unavailability. An instrument will be developed to capture the information needed based on the intended variables. Three types of variables will be used in this study, namely the dependent variables, independent variables and the control variables. The analysis will be done using SPSS 17.

Dependent variables

The dependent variables consist of the location and the extent of CSR reporting. The location of CSR reporting will be measured using a dummy measurement, where if a firm has a stand-alone CSR report, the firm will be coded as 1, while firms without stand-alone CSR report will be coded as 0. The extent of reporting refers to the CSR information disclosed involving the four CSR themes or areas, as stated in the Bursa Malaysia CSR Framework, namely the environment, the workplace, the marketplace and the community. The themes will be then being categorized according to different dimensions for each themes, which are referred from previous Malaysian CSR researches by Janggu, Joseph and Madi (2007) and Saleh, Zulkifli and Muhamad (2010), where certain new dimensions are added to suit the more current themes found in CSR reporting. These dimensions will be captured using the extent measures of content analysis which has been largely used in previous study on CSR, namely by the number of words (Deegan & Gordon, 1996; Zeghal & Ahmed, 1990), number of sentences (Amran & Devi, 2008; Janggu, et al., 2007; Thompson & Zakaria, 2004), and number of pages (Hooks & van Staden, 2011; Thompson & Zakaria, 2004).

Independent variables

The independent variables will be consisted of Shariah-status and board gender diversity. Dummy variables will be used to measure Shariah status, where Shariah-compliant firms are coded as 1 and non-Shariah-compliant firms as 0. Board gender diversity will be measured using two measurements, which are the presence of women on board of directors

and having a women as CEO. The presence of women on the board of directors will be coded as dummy variables where firms with female directors will be coded as 1 while firms without female directors will be coded as 0. Firms having women CEO will also measured by dummy variables, where women CEO will be coded as 1 and male CEO as 0.

Control variables

Firm size, firm performance, firm leverage, auditor type and board size are the control variables used in this study. Firm size will be represented by the firms' total assets while firm performance will be represented by the return on asset (ROA). Firm leverage will be measured by total debt to total assets. Auditor type will be measured by dummy measurements, where firms with Big 4 auditors will be coded by 1, while firms with non-Big 4 auditors will be coded by 0. Board size will be measured by the number of directors on the board.

Conclusion

The objective of this study is threefold: (1) to investigate the location and extent of CSR reporting among the Malaysian firms; (2) to explore if there is any difference in the location and extent of CSR reporting between Shariah-compliant and non-Shariah-compliant PLCs and firms with board gender diversity or without gender diversity; and (3) to examine if Shariah status and board gender diversity influence the location and extent of CSR reporting.

The concept of CSR has been deeply rooted in Islam via the concept of khalifah (vicegerency) (Dusuki, 2008), where firms are required to not only act to the benefit of shareholders' resources, but at the same time embrace the environmental issues and practice the concept of ukhuwwah (brotherhood) for the sake of social justice. Furthermore, Islamic firms should possess two main qualities: social accountability and full disclosure (Baydoun & Willett, 2000), while Islamic values has been identified as a vital force behind the CSR disclosure of Islamic banks (Sobhani, et al., n.d), which signals that firms with Islamic influence have a high commitment to its stakeholders. From these previous findings, we predict that firms with Shariah-compliant status will have greater CSR disclosure which will be disclosed via stand-alone CSR reports.

Previous evidence also shows that the existence of women on the board of directors is linked to firms' philanthropic activities (Bernardi & Threadgill, 2010; Williams, 2003), community involvement and

employee benefits (Bernardi & Threadgill, 2010). Women directors are seen to be more pro-social behavior (Kruger, 2010) and more oriented on philanthropic activities compared to their male colleagues who are economically oriented (Ibrahim & Angelidis, 1994) while firms with women on board will improve CSR ratings which in turn will also improve firm reputation (Bear, et al., 2010). With the support from these past literatures, thus, the prediction is that firms with women directors on board and firms with women as CEO will report more CSR activities and the reporting will be made systematically in stand-alone CSR Reports.

The findings from this study will be beneficial in determining the role played by Shariah advisers in Shariah-compliant listed companies. Furthermore, The findings of this research with regard to the board gender diversity will be beneficial as Malaysia has started to notice the role played by women in handling key positions, where The Honorable Prime Minister of Malaysia, Datuk Seri Najib Tun Razak has announced that the Cabinet has approved the policy of ensuring that every private sector to have 30% of women at their decision-making level (Bernama, 2011, June 27).

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