

Determinants of Non-Reporting of Social and Environmental Information by Malaysian Companies

(Penentu Maklumat Sosial dan Alam Sekitar Tidak Dilaporkan oleh Syarikat-Syarikat Malaysia)

Noriah Che-Adam

(Institute for Management and Business Research, College of Business
Universiti Utara Malaysia)

Phua Lian Kee

Fauziah Md Taib

(School of Management, Universiti Sains Malaysia)

ABSTRACT

In Malaysia, most public companies do not provide social and environmental information in their annual reports. Given the importance of corporate social responsibility (CSR) to the sustainability of resources for future generations, this study attempts to identify the determinants of non-reporting of social and environmental information from the perspectives of proprietary costs and information costs saving. This study analyses the content of annual reports of 368 Malaysian public listed companies. The results show that proprietary cost perspective can explain the non-reporting of social and environmental information while information costs saving perspective can only partially explain the decision. It is also noted that the absence of these drivers are caused by low ethical consumerism and lack of proactive measures by the various watch dog groups in Malaysia.

ABSTRAK

Di Malaysia, kebanyakan syarikat tidak melaporkan maklumat sosial dan alam sekitar dalam laporan tahunan mereka. Berasaskan kesedaran tentang kepentingan tanggungjawab sosial korporat untuk kelestarian sumber untuk generasi akan datang, kajian ini cuba untuk mengenal pasti faktor yang menentukan maklumat sosial dan alam sekitar tidak dilaporkan berdasarkan perspektif kos proprietari dan penjimatan maklumat kos. Kajian ini menganalisis kandungan maklumat dalam laporan tahunan 368 syarikat senaraian awam di Malaysia. Hasil kajian menunjukkan bahawa perspektif kos proprietari dapat menerangkan mengapa maklumat sosial dan alam sekitar tidak dilaporkan, manakala perspektif penjimatan maklumat kos hanya dapat menerangkan sebahagian sahaja mengenai keputusan tersebut. Kajian juga mendapati bahawa ketiadaan penentu-penentu ini adalah disebabkan oleh etika kepenggunaan yang rendah dan kurangnya tindakan proaktif oleh pelbagai kumpulan pemantau di Malaysia.

Keywords: Social and Environmental Information; Corporate Social Responsibility (CSR); Proprietary Costs Perspective; Information Costs Saving Perspective; Ethical Consumerism

INTRODUCTION

The rising concerns and awareness about the potential adverse impact of business activities on social and environmental problems have stimulated much research work on social and environmental reporting since 1990s. Grounded on different theoretical models, researchers from developed countries have made various attempts to explain the motive and rationale behind the disclosure practices among business organisations. Many studies from developing countries have been undertaken following the same strand of research over the past two decades. While the findings from this vein of research work have provided useful insights in understanding corporate social responsibility practices among companies in emerging markets, one important area which is particularly relevant to emerging markets remains unanswered, i.e. why majority companies in emerging markets are not

forthcoming in social and environmental reporting. This issue does or has not captured the attention of researchers from developed countries as it is not a concern for developed countries, which demonstrate a high percentage of social and environmental disclosure among companies (Aerts, Cormier & Magnan 2006; Cormier & Magnan 2003; KPMG & University of Amsterdam 2005). As opposed to developed countries, research findings from emerging markets document evidence of low level of social and environmental disclosure among companies (Bursa Malaysia 2008; Kuasirikun & Sherer 2005; Perry & Sheng 1999) despite the fact that most of these countries are engaging in aggressive development plans to transform themselves into developed nations.

In view of such phenomena, it creates an urgent need to address the issues of non-reporting of social and environmental information among companies in the developing countries. As one of the fast growing emerging

markets, substantial research have been conducted by numerous researchers to gain more insights about corporate social responsibility practices among Malaysian companies. In particular, concerns about the role and effectiveness of corporate governance in the capital markets over the past two to three decades have flourished studies which aim at examining the relationships between corporate governance attributes and corporate social responsibility practices. Among others, Kamaruzaman et al. (2009) found that government regulation, government ownership and family ownership are significantly related to social disclosure. Other researchers revealed that social disclosure are related to director ownership and government ownership (Nazli 2007), proportion of non-executive directors and government linked company (Ying et al. 2008), government shareholding and dependence on government (Azlan 2005), Malay dominated boards, chairman with multiple directorship, board nominated non-executive and foreign shareholding (Haniffa & Cooke 2005). In addition, firm specific characteristics such as size of company, profitability and industry type are found to be significantly related to social and environmental disclosure (Azlan 2005; Fathilatul 2004; Haniffa & Cooke 2005; Kamaruzaman et al. 2009; Nazli 2007; Romlah, Takiah & Jusoh 2002; Zarina & Shaari 2003). Nevertheless, a more comprehensive review showed that a number of studies (e.g. Hairul, Maliah & Nik Nazli 2004; Junaini & Zauwiyah 2003) also reported that some of these variables are not significantly related to social and environmental disclosure. Hence, it can be concluded the findings are still mixed.

Despite considerable attention given by researchers on corporate social responsibility practices, a study by Bursa Malaysia (2008) on 200 Malaysian companies, however, found that only 9 percent of companies received a good band and 4.5 percent of companies received a leading band for their corporate social responsibility disclosure in their operations during the financial year 2006-2007. This indicates that majority of big companies do not show interest or concern about environmental and social reporting, even though such an action can contribute to sustainable development for future generation. The findings suggest that even when cost is not an issue, companies still shy away from disclosing social and environmental information. Thus, it is important to study why a great majority of Malaysian companies do not provide social and environmental reporting despite its importance on the long term sustainability of resources and the wellbeing of society.

While prior studies that attempted to identify factors influencing the disclosure of corporate social responsibility information may have shed some understandings as to why companies are not providing corporate social responsibility disclosure, we believe that the findings are inadequate to explain the non-disclosure behaviours. This is so because the research models applied are designed to explain positive response towards disclosure and not

the reverse. In such models, many of the arguments put forward to explain the decision to disclose are driven by specific motivations by the companies to disclose rather than hindrances faced by non-disclosing companies. When the study is designed as such, there is a systematic 'bias' in-built into the model to explain the focus of the study, i.e. in this case the decision to disclose rather than otherwise. In other words, even though disclosure practices of companies could be driven by certain factors, which appear to be common between the disclosing companies and the non-disclosing companies, there are factors which are specific or unique to each of the group. As the non-disclosure phenomenon is critical among developing countries, we attempt to bridge the research gap by identifying factors, which contribute directly to the non-disclosure behaviour among companies from a developing country, namely Malaysia.

By focusing on companies that are not reporting social and environmental information, this study provides a different setting for research in corporate social responsibility (Belai & Cooper 2011; Bradbury, Dean & Clarke 2009). A review of extant literature shows that a majority of prior studies have attempted to investigate disclosure issues in a setting where companies are differentiated by reference to their level of corporate social responsibility disclosure. Tests are then conducted on these companies to determine factors influencing their disclosure practices. On the other hand, the setting employed by this study provides an important means to understand factors influencing corporate social responsibility (CSR) disclosure from the perspective of non-reporting companies. In other words, the study attempts to address the issues of non-disclosure in a direct manner instead of inferring the reasons from previous studies which aimed at explaining why companies disclose corporate social responsibility information.

Foster (1986) suggested that the cost of disclosure such as collecting, processing, litigation, political and competitive disadvantage cost, is one of the important factors that company's managers consider whether or not to disclose certain information (Gray & Roberts 1989; Verrecchia 1983). In line with the arguments and work presented by these researchers, grounded on proprietary theory, this study attempts to fill the research gap by making attempts to specifically investigate the non-reporting of social and environmental information phenomenon among Malaysian companies from the cost-benefit perspective.

The remaining paper is organized as follows: Section two discusses the previous studies and development of the hypotheses. Section three explains the research design. Section four presents the findings of this study. The last section is the discussion and conclusion of the study.

PRIOR STUDIES AND HYPOTHESIS DEVELOPMENT

PREPARATION AND PROPRIETARY COSTS AND NON-REPORTING OF SOCIAL AND ENVIRONMENTAL INFORMATION

The proprietary costs theory suggests that managers are motivated to withhold certain information if disclosing it means the company has to incur some costs (Verrecchia 1983). As also noted by Soffer (1998), in situations where the legitimacy gap does not exist, companies are reluctant to report social and environmental information because the disclosure involves higher cost. Similarly, Foster (1986) and Li, Richardson and Thornton (1997) indicate that collecting, processing and distribution cost is one of the important factors that company managers consider in deciding whether or not to disclose more information. Hess (2007) proposed that management of companies typically analyse costs and benefits resulting from the disclosure before deciding whether or not to report additional information.

A company will also incur proprietary costs or competitive disadvantage costs when their stakeholders such as competitors, suppliers, customers, labour groups and regulators capitalised on the information disclosed for their personal gains, which can have negative impacts on the reporting company (Leuz & Wysocky 2006). For instance, the above parties can use the information disclosed by companies to reassess their contractual relationships with the company, which, in turn, may reduce the company's cash flows (Cormier & Magnan 1999). Social and environmental information such as environmental liability, ecological activity, energy saving programmes, community involvement, human capital training are proprietary information because they are costly to produce and the disclosure of such information may be used by their stakeholders for their own benefits, which in turns can have negative effects on the company's share price and debt agreement (Cormier & Gordon 2001). Previous studies also documented that competitive disadvantage and the cost of preparing information are major constraints in voluntary reporting among multinational companies (Edwards & Smith 1996; Gray & Roberts 1989; Prencipe 2004). A study by O'Dwyer (2002) found that managers perceive that the cost of social and environmental disclosure is high; therefore, they only report minimal information.

Based on the arguments presented above on the perceived relationships between preparation and proprietary costs and the non-reporting of social and environmental information, the first hypothesis to be examined in this study is stated as follows:

H₁: There is a positive relationship between preparation and proprietary costs and the non-reporting of social and environmental information.

For the purpose of testing the first hypothesis, we have attempted to examine the extent of preparation

and proprietary costs using four proxies based on extant literature (Cormier & Magnan 1999; Cormier & Gordon 2001). These proxies are profitability of companies, size of companies, capital intensity and leverage.

Profitability Leuz (1999), Mohammad, Abdullah and Junaini (2007) and Robert (1992) reveal that proprietary costs are high for low profitability companies as reporting of social and environmental information could reflect badly on the companies, which subsequently lessen the confidence of their stakeholders. Cormier and Magnan (1999) argue that the tendency of company stakeholders to re-examine their contractual relationship with low profitability companies (which report their social and environmental activities) is high because they perceive these companies are not able to finance such extra activities. Therefore, Cormier and Magnan (1999) indicate that low profitability companies are more likely to be reluctant to report social and environmental information. Thus, we formulate the following sub-hypothesis:

H_{1a}: There is a negative relationship between the profitability of a company and the non-reporting of social and environmental information.

Capital Intensity The proprietary costs theory asserts that the disclosure of additional information can be used by their competitors for their own benefits such as replicating the innovative activities presented by the companies (Prencipe 2004). In a situation where the capital intensity of companies is high, they are motivated to report more information because the barrier of entry is high (Darrough & Stoughton 1990; Leuz 1999). However, when the capital intensity of companies is low, the proprietary costs for the reporting company are high as the resources to prevent competitors from implementing similar activities decreases. Therefore, a company with low capital intensity is less motivated to report social and environmental information. Based on the above discussion, we hypothesise that:

H_{1b}: There is a negative relationship between the capital intensity of a company and the non-reporting of social and environmental information.

Size of Company Leuz (1999) and Mohammad et al. (2007) stated that the costs of collecting, processing and disseminating information are small for big companies because of a large number of fixed components. Similarly, proprietary costs are found to be small in large companies compared to the benefits of disclosure. Therefore, these companies are motivated to report additional information (Craswell & Taylor 1992). Jensen and Meckling (1976) pointed out that the existence of political costs such as additional regulations, increased tax and social commitment limit the reporting of social and environmental information. Therefore, no additional disclosure will be made by a small company. That is, the preparation and proprietary costs for small companies are high because they have limited resources and expertise. Accordingly, we hypothesise:

H_{1c}: There is a negative relationship between the size of a company and the non-reporting of social and environmental information.

Leverage According to the proprietary costs theory, the competitive disadvantage costs in highly leveraged companies are significant that there is little or no incentives for the companies to report additional information (Cormier & Gordon 2001). Arguably, the reporting of social and environmental information especially environmental liability and commitment has the potential to expose area of a company's risk. It is conjectured that companies with high leverage do not have incentives to disclose additional information for they fear that the existing lenders may revise their debt contracts. Equally risky is if the additional information scares the potential lenders away from the companies, threatening an important source for future project financing. Thus, we formulate the next sub-hypothesis:

H_{1d}: There is a positive relationship between the leverage of the company and the non-reporting of social and environmental information.

INFORMATION COSTS SAVING AND NON-REPORTING OF SOCIAL AND ENVIRONMENTAL INFORMATION

One of the benefits of public disclosure is a reduction in the cost of information collection by individual investors, which, in turn, increases the liquidity of the market, raises the current stock price and reduces the cost of capital (Botoson 1997; Diamond & Verrecchia 1991). Therefore, in situations where numerous investors privately collect the information, companies are motivated to disclose voluntary information to save information costs (Cormier & Magnan 1999; Diamond 1985). On the other hand, Diamond (1985) reveals that companies will not disclose additional information if only a few investors collect the information personally since there is no benefit of disclosure from information cost saving. As such, our second hypothesis is stated as follows:

H₂: There is a negative relationship between information cost saving benefits and the non-reporting of social and environmental information.

The extent of benefits of disclosure from information cost saving depends on the company's risk, ownership structure, trading volume and reliance on capital market. Therefore, five proxies are identified to test information cost saving based on discussions presented below:

Systematic Risk Balabanis, Phillips and Lyall (1998) indicate that companies are considered to have a stable market performance if their systematic risks are low. Therefore, such a situation is more favourable for investors to assess the value of the firm. Once investors realize that the social and environmental information are accessible from the companies, they will have no further incentive to collect information privately. Since there is no further cost saving that would result out of reporting voluntary

information, companies tend to not report or disclose such information as argued by Scott (1994). Thus, the hypothesis is:

H_{2a}: There is a negative relationship between the systematic risk and the non-reporting of social and environmental information.

Foreign Ownership As a priori, foreign investors are assumed to have more incentives to collect social and environmental information because of their greater concern on sustainability issues. Therefore, the disclosure of such information by companies can decrease the cost of collection by individual foreign investors, thereby providing benefits to the reporting company (Cormier & Magnan 1999). In contrast, if the proportion of foreign investors in the companies is low, not much information about social and environmental information will be generated. This is because companies are not motivated to report such information since the benefits of disclosure from information cost savings are low (Scott 1994). Based on the argument, we hypothesise that:

H_{2b}: There is a negative relationship between foreign ownership and the non-reporting of social and environmental information.

Concentrated Ownership In concentrated ownership, only limited shareholders will benefit from public disclosure because major investors in a concentrated ownership structure would acquire information directly from companies as most of them are executives or members of the companies' board of directors (Leuz 1999). In this context, the information cost saving is minimal (Aerts et al. 2006; Cormier & Magnan 1999; Leuz 1999) but the proprietary cost is high (Scott 1994). In Malaysia, corporate shareholding is highly concentrated with family as the prevailing shareholders (Liew 2007; Thilainathan 1999). Schulze et al. (2001) and Hendry (2002) argued that influential owner/managers in highly concentrated ownership would engage in moral hazard behaviour, benefiting themselves at the expense of minority shareholders. The incentives for family-owned companies to disclose voluntary information are different from other types of companies. Typically, family-owned companies would analyse the benefits of voluntary reporting against the costs of non-reporting such as litigation and reputation costs (Shuping, Xia & Qiang 2008). Companies will decide to disclose such information if the benefits exceed the costs, even if that means neglecting the best interest of the minority shareholders (Jaggi, Leung & Gul 2009). It is envisaged that companies with a low percentage of concentrated ownership may not be likely to report voluntary information because they are no interested family owners to maximise their own private benefits. As such, we hypothesise that:

H_{2c}: There is a negative relationship between concentrated ownership and the non-reporting of social and environmental information.

Trading Volume A higher trading volume indicates that the shares of the company are actively traded and thus, the need for more information by individual investors (Cormier & Magnan 1999). Since the individual collection of information is costly, release of public information by companies will benefit investors in terms of reducing the information costs (Leuz 1999; Scott 1994). On the other hand, in a situation where trading volume is low, not much information will be demanded by individual investors. Hence, companies will decide to withhold social and environmental information because the benefit of disclosure is less than its costs. Accordingly, we hypothesize:

H_{2d}: There is a negative relationship between trading volume and the non-reporting of social and environmental information.

Reliance on Capital Market Botoson (1997) and Leuz and Wysocki (2006) reveal that companies that rely on capital market will report more voluntary information to satisfy the demand of capital market participants. This decision will in turn increase the price of the shares and reduce the cost of capital. In the absence of additional disclosure, market participants will presume a worst market condition regarding such companies and as a result, the corporate image and value will be jeopardized (Cormier & Gordon 2001). Cormier and Magnan (1999) asserted that the benefits of disclosure outweigh the costs in this situation. A study by Collett and Hraskey (2005) found that companies that issue additional share capital would disclose more voluntary information to reduce information risk. On the contrary, Iatridis (2012) found that companies that do not rely on capital market to finance their activities would not provide additional information in their annual report. Companies with less capital market reliance do not have the incentives to disclose social and environmental information because the benefit of disclosing is far too low as opposed to the costs of preparation and proprietary costs incurred. Thus, the following hypothesis is formed:

H_{2e}: There is a negative relationship between reliance on capital market and the non-reporting of social and environmental information.

METHODOLOGY

CLASSIFICATION OF NON-REPORTING COMPANIES

Based on the objective of this study, the sample firms are classified into two groups, namely the non-reporting and the reporting companies. The focus of this study on non-reporting companies implies that a pre-determined checklist for the purpose of measuring the level of corporate social responsibility disclosure (c.f., Cormier & Gordon 2001; Hackston & Milne 1996; Haniffa & Cooke 2005) is inappropriate for this study. Draw on the principle of substance over form, we attempt to avoid labelling

firms as reporting companies for those companies that actually reporting social and environmental information solely to comply with mandatory reporting requirements instead of initiated voluntarily from their commitment to sustainability. For example, a company that only discloses the total number of employees (because this is a mandatory listing requirement) without providing any other information related to its employees will be classified as a non-reporting company. In contrast, such a company will be considered as a reporting company as the information about "number of employees" is pre-determined and classified as a disclosure item according to the checklist. As such, we minimise the tendency of an upward bias in the classification of reporting companies.

In this study, non-reporting of social and environmental information is conceptualized as the non-disclosure of voluntary information about environmental, human resources, community, product and energy in a separate heading or separate section or sustainability section in the annual report. According to Gray, Kouhy and Lavers (1995), reporting information about social and environmental activities in a separate section of an annual report or separate booklet exhibits significance of that information. Besides, the reporting of such information in sustainability reports such as the sustainability section in the annual report or a stand-alone sustainability report indicates the high commitment by the companies in contributing to sustainable development (Commonwealth of Australia 2005). Therefore, social and environmental information, which is not presented in a separate heading or separate section or sustainability section of an annual report, is considered as non-reporting in this study as it has not really captured the company's commitment to sustainable development (Global Reporting Initiative (GRI) 2006).

Mandatory human resources information such as employee expenses (salary, wages, bonus) (FRS 101), employee benefits (FRS 119 & 126), the number of employees (FRS 101) and employee share purchase option (ESOS) (FRS 2) are excluded from the definition of social and environmental disclosure to avoid bias (Guthrie & Parker 1990) to reflect the actual voluntary information only.

MODEL FOR NON-REPORTING OF SOCIAL AND ENVIRONMENTAL INFORMATION

Binary logistic regression is tested to examine the relationship between dependent and independent variables. This study proposes the following model:

$$\begin{aligned} \text{NDISCL}_i = & \beta_0 + \beta_1 \text{PROFIT}_i + \beta_2 \text{CAPITAL}_i + \beta_3 \text{SIZE}_i \\ & + \beta_4 \text{LEV}_i + \beta_5 \text{RISK}_i + \beta_6 \text{FOREIGN}_i \\ & + \beta_7 \text{CONCENT}_i + \beta_8 \text{VOLUME}_i \\ & + \beta_9 \text{RELIANCE}_i + e_i \end{aligned}$$

Non-reporting of social and environmental information (NDISCL), which is the dependent variable is dichotomous variable that takes the value of 1 for

non-reporting companies or 0 for reporting companies. The independent variables in the model consist of four proxies for preparation and proprietary costs and five proxies for benefit of disclosure from information costs saving. The preparation and proprietary costs are proxied by profitability (ROA), capital intensity (CAPITAL), size of company (LNASSET) and leverage (LEVERAGE). Profitability is measured by return on assets (Freedman & Jaggi 2005), capital intensity is gauged by net property, plant and equipment divided by total assets (Leuz 1999), size of company is based on the natural log of total assets (Hackston & Milne 1996) and leverage is measured by total debt divided by total equity (Oyelere, Laswad & Fisher 2003). The benefits of disclosure from information costs saving are proxied by systematic risk (RISK), foreign ownership (FOREIGN), concentrated ownership (CONCENT), trading volume (VOLUME) and reliance on capital market (RELIANCE). Systematic risk is measured by time series least squares regression on monthly stock price (Botson 1997), foreign ownership is the percentage of ordinary shares held by foreign shareholders in the list of 30 largest shareholdings (Fauzias & Zunaidah 2007), concentrated ownership is the percentage of ordinary shareholding of 5% or more (Yue-Duan, Dwan-Fang, & Yu-Chin 2007), trading volume is measured by annual trading volume divided by total shares outstanding (Cormier & Magnan 2003) and reliance on capital market is a dummy variable which takes a value of 1 if the change in firm debt to equity ratio is more than 20% or 0 otherwise (Cormier & Magnan 2003).

DATA COLLECTION AND SAMPLE DESCRIPTION

This study draws on companies listed on the Main Board of Bursa Malaysia as at the end of 2006. Year 2006 is chosen because it is the final year for which social and environmental reporting is made voluntary. From 2007 onwards, Bursa Malaysia require all Malaysian public listed companies to report their social and environmental information (Bursa Malaysia 2007). The total number of companies listed on the Main Board in 2006 is 648 (Bursa Malaysia 2006). However, this study excludes PN4 and PN17 companies due to their financial problems. There nine PN4 companies and twelve PN17 companies at the end of 2006. The companies' annual reports are downloaded from the Bursa Malaysia website. Companies which annual reports are not available are excluded from the analysis. Information about social and environmental activities, financial characteristics and ownership structure are gathered from annual reports and Datastream. The final sample consists of 368 companies.

The distribution of the sample based on industry classification is displayed in Table 1 that shows that there are 252 non-reporting companies as opposed to only 116 reporting companies. The sample represents 57 percent of

the Bursa Malaysia Main Board companies and all industry types; Industrial Product, Consumer Product, Trading/Service, Plantation, Technology, Construction, Finance, Properties, Hotel and Infrastructure. Industrial Product industry represents the largest number of companies (89) in the sample, followed by Properties (71), Trading/services (70) and Consumer product (49). There are three industries in which the number of companies is smaller such as Hotel (5), Technology (4) and Infrastructure (6). Despite the small representation, they represent 100 percent of the Hotel sector, 25 percent of the Technology sector and 67 percent of the Infrastructure sector.

TABLE 1. Sample distribution by industry

Types of Industry	Non-Reporting	Reporting	Total
Industrial Product	73	16	89
Consumer Product	38	11	49
Trading/Services	41	29	70
Plantation	12	14	26
Technology	4	0	4
Construction	17	9	26
Finance	10	12	22
Properties	52	19	71
Hotel	4	1	5
Infrastructure	1	5	6
Total	252	116	368

EMPIRICAL RESULTS

UNIVARIATE ANALYSIS

Table 2 shows the descriptive statistics of continuous independent variables included in the study, partitioned by non-reporting companies and reporting companies. The results of t-test show that non-reporting companies have a lower return on assets, smaller total assets, lower foreign ownership, lower concentrated ownership and higher trading volume than reporting companies. All the differences are statistically significant at the 1% level. The mean of foreign ownership for non-reporting companies is two times lower than reporting companies while the mean of total assets in non-reporting companies is ten times lower than reporting companies. Statistically, there is no significant difference between non-reporting and reporting companies in terms of reliance on capital market, leverage and systematic risk.

TABLE 2. Descriptive statistics of continuous independent variables

Variable	Non-Reporting, N = 252		Reporting, N = 116		t-Test	
	Mean	Std. Dev.	Mean	Std. Dev.	t-stat	p-value
ROA	0.01	0.08	0.06	0.07	-5.76	0.00***
CAPITAL	0.4	0.22	0.39	0.25	0.14	0.89
ASSET (RM mill)	925	6421	9646.5	28695	-3.236	0.00***
LEVERAGE	0.60	4.18	0.72	1.01	-0.31	0.76
RISK	1.02	0.77	1.02	0.59	0.09	0.93
FOREIGN	5.53	9.67	11.11	14.49	-3.78	0.00***
CONCENT	43.75	18.44	55.99	15.70	-6.57	0.00***
VOLUME	0.36	0.61	0.23	0.33	-2.50	0.01**

Notes: *** Significant at 1% or less ** Significant at 5% or less * Significant at 10% or less

Table 3 reports the chi-square test for the dichotomous variable, which is performed to test the difference in reliance on capital market between two groups of companies. The result shows that there is no significant difference in reliance on the capital market between non-reporting and reporting companies.

TABLE 3. Descriptive statistic of dichotomous variable, Reliance

Categories	Non-Reporting, N = 252	Reporting, N = 116	χ^2	p-value
Reliance	73	31		
Non-Reliance	179	85	0.102	0.749

MULTIVARIATE ANALYSIS

Table 4 presents the Pearson correlations among the continuous independent variables. The results show that the most significant correlations are between systematic risk and return on assets (-0.354), and between trading volume and concentrated ownership (-0.362). However, these do not pose a problem. An additional analysis using ordinary least squares regression shows that the variation inflation factors (VIF) are less than 10 and tolerance values are more than 0.10 indicating the absence of multicollinearity problems among the independent variables.

TABLE 4. Pearson correlation analysis

	1	2	3	4	5	6	7	8
1. ROA	1							
2. CAPITAL	-0.098	1						
3. RISK	-0.35**	0.06	1					
4. LNASSET	0.052	-0.09	0.1	1				
5. CONCENT	0.21**	-0.02	-0.3**	0.12*	1			
6. VOLUME	-0.23**	0.02	0.29**	-0.07	-0.36**	1		
7. FOREIGN	0.15**	-0.03	0.05	0.23**	-0.05	-0.001	1	
8. LEVERAGE	0.15**	-0.12*	-0.07	0.27**	0.03	0.09	-0.07	1
9. RELIANCE	-0.26**	0.03	0.14**	0.17**	-0.56**	0.13*	-0.05	0.13*

Notes: ** Correlation is significant at the 0.01 level (2-tailed) and * at the 0.05 level (2-tailed)

Table 5 depicts the results of binary logistic regression. The results reveal that profitability (ROA), capital intensity (CAPITAL), size of company (LNASSET), leverage (LEVERAGE), concentrated ownership (CONCENT), trading volume (VOLUME) and reliance on capital market (RELIANCE) are significantly associated with non-reporting of social and environmental

information. ROA, LNASSET, LEVERAGE and CONCENT are significant at the 1 percent level, CAPITAL and RELIANCE are significant at the 5 percent and whereas VOLUME is significant at a conventional level of 10 percent. Only systematic risk (RISK) and foreign ownership (FOREIGN) are not significantly associated with non-reporting of social and environmental information.

TABLE 5. Logistic regression explaining the likelihood of non-reporting of social and environmental activities

Variables	Pred.Sign	Coefficient	Standard Error	
ROA	-	-39.134***	6.394	
CAPITAL	-	-2.535**	1.005	
LNASSET	-	-3.696***	0.503	
LEVERAGE	+	0.523***	0.083	
RISK	-	-0.341	0.378	
FOREIGN	-	0.022	0.018	
CONCENT	-	-0.091***	0.018	
VOLUME	-	-0.843*	0.503	
RELIANCE	-	0.976**	0.500	
CONSTANT		58.141	7.786	
Statistics:			Classification Accuracy:	
χ^2		315.163***	Overall	90.8
Degree of freedom		9	-Non Reporting	94.4
Cox & Snell R ²		57.5%	- Reporting	82.8
Nagelkerke R ²		80.8%		

Notes: *** Significant at 1% or less **Significant at 5% or less *Significant at 10% or less. N_{REPORTING} = 116 and N_{NON-REPORTING} = 252

DISCUSSION AND CONCLUSION

RELATIONSHIP BETWEEN PREPARATION AND PROPRIETARY COSTS AND NON-REPORTING OF SOCIAL AND ENVIRONMENTAL INFORMATION

All the proxies of preparation and proprietary costs employed in this study are found to be significant. This means that hypothesis 1 is fully supported. From the results, it can be deduced that preparation and proprietary costs are the major impediment for companies not to disclose social and environmental information in Malaysia. The argument fits well with the explanation provided by the proprietary theory and as argued by Cormier and Magnan (1999) that conducting corporate social responsibility (CSR) activities are not free. It involves a lot of money especially for environmental activities. Moreover, under poor financial conditions, investors are likely to expect that companies use their scarce resources to invest in other direct profit-oriented investments in order to increase future profitability. If companies still report social and environmental activities under these adverse financial conditions, the credibility of the management decision might be questioned. Consequently, shareholders and investors lose their confidence in the management and withdraw their investments in the company. This would consequently reduce the company's cash flows which result in an increase in proprietary costs (Cormier & Gordon 2001; Cormier & Magnan 2003).

Although several authors and practitioners argue that CSR can indirectly increase the profitability of companies in the long run (ACCA 2005; Robin 2005), in Malaysia however, such an appreciation is notably absent partly due to relatively low ethical consumerism which is quite common among emerging markets. The immediate concern is just on the ability of the companies to generate more profits for the investors. The situation is also worsened by the inactive minority watch dog groups within the systems. This is evidenced by an interview with the management of the hotel industry in Malaysia which reports that the main interest of Malaysian stakeholders is the reporting of financial performance information, not the CSR (Che Zuriana 2008). Thus, it can be concluded that the lack of ethical consumerism and environmental consciousness among stakeholders in Malaysia has contributed to the insensitivity and reluctance on the companies' part to provide a comprehensive report of their environmental management practices to their stakeholders.

RELATIONSHIP BETWEEN INFORMATION COSTS SAVING AND NON-REPORTING OF SOCIAL AND ENVIRONMENTAL INFORMATION

Based on the findings, two of the proxies for information costs saving namely systematic risk and foreign ownership are not significant in determining non-reporting of social and environmental information. This suggests that hypothesis 2 is partially supported.

The result contradicts the proprietary costs benefit perspective which argues that low risk companies are more likely not to report social and environmental information due to limited benefits gained as opposed to the preparation and proprietary costs incurred (Cormier & Magnan 1999). The insignificant result can be explained by the fact that majority of Malaysian companies rely on banks rather than the capital market for their financing needs. Recall that in Table 2, the results show that there is no mean difference between non-reporting and reporting companies for systematic risk as both groups report the same means.

Though foreign ownership is expected to influence the non-reporting of social and environmental information, this study finds however that such a relationship does not hold. Having less foreign ownership in the companies does not cause the non-reporting of social and environmental information. The result seems to imply that the role of international investors is not really functioning as argued by the literature in corporate governance (Fauzias & Zunaidah 2007; Haniffa & Cooke 2005; Yue-Duan et al. 2007).

Concentrated ownership is found to be negatively related to the non-reporting of social and environmental information. The results of this study clearly imply that non-reporting of social and environmental information is more likely to occur in companies with low concentrated ownership. In this context, the companies are reluctant to provide more voluntary information because owner-managers are not interested in gaining their own benefits through public disclosure. However, in highly concentrated ownership companies, their owner-managers will provide more information to increase their personal benefits (Schulze et al. 2001; Hendry 2002).

Trading volume is found to be negatively related to non-reporting of social and environmental information. Trading volume is one of the indicators of a company's share liquidity (Leuz 1999) and it will provide information about the value of companies (Kim & Verrecchia 2001). Companies with lower trading volume indicate that they are not followed by a large number of investors, which means that only limited investors will scrutinize additional information about these companies. Therefore, the benefits from information cost savings out of reporting the voluntary information is minimal compared to the cost incurred. Hence, low trading volume companies are more likely not to report their proprietary information about social and environmental activity in their annual reports. On the other hand, Bushee, Matsumoto and Miller (2003) find that companies are more likely to provide more information in a case when a significant number of investors demand for those information and Huddard, Hughes and Brunnermeier (1999) also report significant relationship between trading volume and disclosure of information. By matching the findings of these studies with the present study, it indicates that trading volume appears to be a significant factor influencing both decisions either to disclose or not to disclose.

The regression results show that reliance on the capital market significantly influences the non-reporting of social and environmental information. However, its direction contradicts the proprietary cost benefit perspective consideration, which believes that companies that do not rely on the capital market are more likely not to report this information. In rebuttal, the result of this study provides evidence that companies that rely on the capital market to finance their activities are more unwilling to report their social and environmental activities in the annual reports. Therefore, this result is not consistent with the findings of the studies by Cormier and Gordon (2001) and Cormier and Magnan (2003).

One plausible explanation for the contradictory findings between this study and the previous studies is the use of more than 20 percent change in debt to equity ratio does not accurately measure capital market reliance. This is notwithstanding the fact that many Malaysian companies rely on banks for their financial needs more than on the capital market. Thus, the result suggests that a more accurate proxy for capital market reliance ought to be developed in future studies.

In summary, it has been demonstrated that the proprietary costs benefit perspective is appropriate in explaining the non-reporting of social and environmental information by Malaysian companies. Though much of the absence of these drivers are caused by the inactive ethical consumerism and lack of proactive measures by the various watch dog groups in Malaysia. Inevitably, this has resulted in less mature stakeholders to demand for information that would be useful for future sustainability of the community and the environment.

From information costs saving perspective, the proxies used in this study are only able to partially explain the decision not to disclose social and environmental reporting in Malaysia. Specifically, only concentrated ownership and trading volume are able to explain the decision not to disclose by the companies while the rest of the proxies do not provide support for information costs saving. Much of these inability to explain raise from the fact that information perspective is still something relatively new in Malaysia. For instance, majority of Malaysian companies still rely on banks for their financing needs and thus, reducing to a certain extent the need or demand to disclose publicly (other than banks) such sensitive information in the annual reports.

The findings have important implications to proponents of CSR practices. The findings provide further evidence to explain why the efforts to promote CSR have not been as fruitful despite the importance of social and environmental issues on the sustainability of resources and wellbeing of society. The findings of this research also highlight the absence of important impetus to promote sustainable reporting such as ethical consumerism and more proactive measures by the various watch dog groups.

Research findings generally suggest that CSR practices will bring benefits to business organisations in the long term (Balabanis et al. 1998; Samy Odemilin, & Bampton

2010). The findings from this study highlight a mismatch between cost and benefits in the implementation of CSR. The costs of disclosure represent short-term commitments which have a direct or immediate impact on the bottom line of a firm. Small firms which are constrained by limited resources would normally have other more urgent matters in their agenda. Hence, more attention must be directed to understand the concerns of these firms so that CSR will be regarded as the top priority and be widely practised by most business organisations.

To academics, the evidence which shows that a large number of companies are still irresponsive to the need of providing CSR information voluntarily makes it even more appealing. It suggests that more research efforts are needed to understand the reasons and hurdles restricting these companies from actively adopting the CSR practices. In particular, unique contextual environmental factors need to be explored to enhance better understanding of challenges faced by different jurisdictions. This study also highlights the need to develop more precise constructs to strengthen the theoretical framework in explaining non-reporting of CSR among companies.

One of the limitations of this study is that some of the proxies for preparation and proprietary costs as well as information costs saving are also commonly tested on theories, which explained positive responses towards CSR. This creates an impression that determinants of disclosure and non-disclosure are similar even though the underlying theories being examined are different. In future, researchers should make attempts to identify proxies that are catered specifically to measure non-reporting behaviour and minimising using those common proxies where possible so that the findings can provide a stronger support to the underlying theories tested for non-reporting companies. In addition, future studies may extend the framework suggested in this study by using different dimensions of measurement for preparation and proprietary costs and benefit of disclosure from information costs saving. Instead of using proxies, further research can develop a construct to measure these two costs.

ACKNOWLEDGEMENT

We would like to express our gratitude for the insightful comments from the facilitator and participants of Journal Publication Workshop conducted by Institute for Management and Business Research (IMBRE), Universiti Utara Malaysia, at Langkawi 2-4 February 2012.

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Noriah Che-Adam (Correspondent author)
 Institute for Management and Business Research
 College of Business
 Universiti Utara Malaysia, 06010 Sintok, Kedah, Malaysia
 E-mail: noriah@uum.edu.my

Phua Lian Kee
 School of Management, Universiti Sains Malaysia
 11800 USM Penang, Malaysia
 E-mail: phualk@usm.my

Fauziah Md Taib
 School of Management, Universiti Sains Malaysia
 11800 USM Penang, Malaysia
 E-mail: mfauziah@usm.my