CORPORATE SOCIAL DISCLOSURE BY BANKS AND FINANCE COMPANIES: MALAYSIAN EVIDENCE

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Abstract

This paper provides empirical evidences on the corporate social disclosure practice in the highly regulated industries namely banking and finance. In response to prior literature, research in specific industry will allow the researcher to see some specific pattern in disclosure theme for those industries because all social disclosure items were treated equally. Result from the study on disclosure theme shows that product related disclosure was highest. It may indicate some important issues taking place in the period under study. Furthermore, the result of the hypothesis testing shows that size, listing status and age of business appear to significantly influence the disclosure practice and may conforms to legitimacy theory postulate. While the profitability variable show insignificant relationship possibly due to prior literature notion that decision to disclose social information is related to public pressure variable rather than profitability variable. Finally, for the company profiles the result shows negative and insignificant relationship.

Keywords: corporate social disclosure, corporate social responsibility, legitimacy theory, voluntary disclosure

Introduction

The purpose of Corporate Social Disclosure (hereafter referred to as CSD) is to show to the society the social activities of a corporation engage in and its impact on society. The word impact here refers to what extent the environment, employee, consumer, local communities and others are affected from the business operations and activities (Monks and Minow, 1995). Gray, Kouhy and Lavers (1995a) noted that the terminologies for 'CSD' and 'environmental reporting' have many virtual synonyms, which include corporate social (and environmental) disclosure, social responsibility disclosure and reporting and even social audit.

Some researchers considered CSD as one of the areas of Corporate Governance. For instance, Rodzi (1998) defined Corporate Governance as "the process and structure used to direct and manage the business and affairs of a corporation with the objective of enhancing long-term value for shareholders and financial viability of the business". The process and structure is defined as the division of power and accountability among shareholders, the Board of Directors and the Management and can have an impact on other stakeholders such as employees, customers, suppliers and communities. Monks and Minnow (1995) defined Corporate Governance as the relationship between shareholders, Management and Board of Directors in deciding the direction and performance of a corporation. Tricker (1998) cited that Corporate Governance is concerned with good management and governance by the Board of the company and its good relationship with the shareholders, regulators, auditors, top management and other legitimate stakeholders.

In view of the above definitions, CSD is the reflection of the accountability and transparency concept of a good Corporate Governance that broadens the scope of management responsibility (Gray, Kouhy and Lavers, 1995b).

The primary objective of this study is to identify the types of social information disclosed by banks and finance companies in their Annual Reports. The

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secondary objective is to empirically investigate selected company characteristics that may influence the level of social disclosure.

Motivation of the study

As mentioned above the primary reason for this study is to investigate CSD practice by banks and finance companies in Malaysia. The main motivation to conduct this study has been that as of to date to the author's knowledge, an empirical research concerning CSD by banks and finance companies has been minimal. Secondly, most of the prior researches relating to disclosure studies were proposed to exclude banks or financial institutions in their sample because of different regulations attached to this sector as compare with others (Cowen, Ferreri and Parker, 1987; Gray et al., 1995a, 1995b; Gray, Javad, Power and Sinclair 2001; Hackston and Milne, 1996). In Malaysia, CSD is voluntary in nature (MACPA[i1], 1998) and as such it motivates the author to conduct this study. Finally, Griffin and Mahon (1997) suggest that future CSD researches need to be conducted within a specific industry. The reason given was that the researchers would be able to detect some specific patterns of social performance related to that particular industry and all social disclosure items were treated equally.

Literature review

There is no specific theory to explain the CSD practiced by companies (Choi, 1999). Legitimacy Theory, Stakeholder Theory, Political Economic Accounting Theory and Agency Theory were employed in many CSD studies. Gray et al. (1995a, 2001) argues that the Legitimacy Theory and Stakeholder Theory are neither separate nor competing, but viewed as overlapping perspective between political economic assumptions. Gray et al (1995a and 2001) who had spent many years in CSD research comments that CSD practice is a complex activities that cannot be fully explained by a single theoretical perspective or from a single level of resolution. Choi (1999) supports Gray comments on the opinion that each theory relies on different theoretical argument that will imply different motivations by the firm to disclose information's. However, majority of CSD studies utilize Legitimacy Theory even though the result has been inconsistent (Gray et al., 1995a; Guthrie and Parker, 1989). This may be due to difference in strategies used by companies to legitimize its behaviour (Cormior and Gordon 2001; Newson and Deegan, 2002). Cormior and Gordon (2001) and Gray et al. (1995a) outlined four broad legitimized strategies proposed by Dowling and Preffer (1975) and Lindblom (1994) when organization's they faced legitimacy threat. The first strategy has been to educate the society about the organization's intention to improve its performance or change in action. The second strategy has been "to alter how society perceived an organization's action without making any changes to those actions" (Cormoir and Gordon, 2001). The third strategy has been diverted or manipulated attention away from the issue concerned by the society to other alternative issues. The last strategy has been changed or altered society's expectations about organization performance. In view of the above strategies, it is assumed that Legitimacy Theory would provide information that legitimizes organization behaviour with the aim to influence society and stakeholders perceptions about the companies.

The idea of CSD has been practiced since twentieth century (Guthrie and Parker, 1989; Gray, 2000). One of the early works in CSD literature by Howard R. Bowen (1953) was concerned about the doctrine or principles in CSD (Carrol, 1999), which included among others the CSD definition. Bowen's idea on the CSD definition and principles on the CSD definition and principles was later expanded by Heald (1957, 1970) and Ells (1956). This clear definitions and principles stood as guidance for future researches in CSD that related to development of CSD theme and theoretical framework. The period from 1970 till the end of the decade can be considered a remarkable period in the development in CSD (Mathews 1997). According to Gray (2000) the study on CSD has "attracted considerable and wide-spread attention during the early to mid-1970s". From 1972 to 1973 the US National Association of Accountant (NAA) had established a Committee on Accounting for Corporate Social Performance. By 1974 the committee had issued its first report relating to major area in social disclosure under four general headings namely community involvement, human resources, physical resources and environment contribution and product and service contribution (Keller, 1974).

Belkaoui (1984) cited a study conducted by Ernst and Ernst from 1971 to 1978 to evaluate the nature of social responsibility disclosure in Annual Reports of the Fortune 500 industries, 50 life insurance companies and 50 commercial banks. The objective of the study was to list the possible dimension of corporate social responsibility disclosure. Results from the study revealed that there are seven dimensions of corporate social responsibility disclosure that is environment, energy, fair business practice, human resources, community involvement, products and other social responsibility disclosure. Majority studies in CSD have utilized Ernst and Ernst social dimension to investigate the extent of social disclosure by business corporations (Belkaoui and Karpik, 1989; Clark and Sweet, 1999; Gray et al. 1995a, 1995b, 2001; Hackston and Milne, 1996; Williams and Pei, 1999). However, Belkaoui (1984) had urged researchers not to limit the list of social factors as suggested by Ernst and Ernst (1978). Davis and Blomstrom (1975) have proposed a more detailed list

[1] Abbreviation for Malaysia Association of Certified Public Accountant now is known as MICPA.

of social responsibility disclosure. The list includes ecology and environmental quality, consumerism, community needs, governmental relations, business giving, minorities and disadvantaged person, labor relations, stockholder relations and economic activities (Belkaoui, 1984). Belkaoui also reviewed the list proposed by Research and Policy Committee of the Committee for Economic Development (1971). The ten main ideas proposed by the Committee were economic growth and efficiency, education, employment and training, civil right and equal opportunity, urban renewal and development, pollution abatement, conservation and recreation, culture and arts, medical care and government. Besides, the United Nation Economic and Social Council (1977) proposed standard reporting items for social disclosure. The social disclosure items can be categorized into five categories i.e. human resources, production, investment program, organization structure and environmental measures (Park and Adnan, 1994). As indicated above earlier studies on CSD were to define theme or dimension relating to CSD. These dimensions were later extended in empirical research relating to quantity and perceptions on CSD disclosure, characteristics of disclosure companies and reporting medium (Carrol, 1999; Mathews, 1997; Zeghal and Ahmed, 1990). On the quantity of information disclosed by companies relating to the disclosure theme the majority of CSD studies showed consistent result, where the most item disclosed has been human resource (Bellal, 2001; Gray et al. 2001; Imam, 2000; Nafez and Kamal,2000; Tsang, 1999; Williams and Pei, 1999;). Hogner's (1982) study of US Steel reports for the years 1901 to 1980 also found that the most disclosed item was human resource. Grey et al. (1995a) performed time series studies for social and environmental disclosure in Britain for 13 years (1979 – 1992). Result from the studies revealed that social disclosure item on employee was widely practiced. In another study, Gray et al. (2001) also found that human resource disclosure was ranked highest in the UK Company's annual report.

Hackston and Milne (1996) conducted a research on social and environmental disclosure practiced by New Zealand companies. The sample consisted of 47 companies listed on the New Zealand Stock Exchange (representing 92 percent market capitalization). The result from the survey revealed that human resource disclosure was the most popular item in CSD by New Zealand companies. Other social disclosure item more widely disclosed were community service, environmental and product disclosure (Bellal, 2001; Gray et al. 2001; Imam, 2000; Nafez and Kamal, 2000; Tsang, 1999; Williams and Pei, 1999). Despite the fact that most studies showed consistent results in disclosure theme some factors like differences in time period, sample size, culture and methodology need to be considered.

Studies in Malaysia

CSD study in Malaysia is still in its infancy stage (Hackston and Milne, 1996). Teoh and Thong (1984) has conducted study on CSD practiced in Malaysia by way of questionnaire interview. The sample comprised Chief Executive Officers of 100 selected Malaysian companies. The findings showed that CSD practices in Malaysia were concerned with or about human resource and product or service contribution. Another study by Kin (1990) using Annual Reports of 100 Malaysian public listed companies (classified into five categories) revealed that only 66 percent of the companies in the sample made social disclosure. For the social disclosure theme, 64 companies disclosed information on product/ service improvement/ contribution, 31 on human resource, 22 companies on community involvement and only 1 on environmental disclosure. Later MACPA (1998) also conducted a study on CSD using Malaysian public listed companies. Their study indicated that firstly the level of disclosure was relatively low. Secondly it showed that human resource disclosure attained the highest rank followed by community involvement, environmental protection and product/service improvement and contribution. The above studies indicate that the differences in disclosure theme disclosed by companies arose due to the different methodologies employed and different time periods. Under this circumstance this study seeks to fill the gap relating to CSD practiced in Malaysia it is banks and finance sector. Furthermore this study also attempts to find evidence that can contribute in developing a CSD theory.

Firm characteristics and hypothesis

As stated in secondary research objective, this study will investigate a number of corporate characteristics that will possibly contribute in the development of a CSD theory. Firm size, financial performance, corporation age, listing status, and company profile has been chosen to represent corporate characteristics for the independent variable.

Firm size. Cowen et al., (1987) argued that business activities conducted by large corporation will have an impact on the society. Hence, the shareholders are generally more concerned on the company's social and other activities that will affect the society. However there were inconsistent results as to the relationship between size and CSD. Two studies on New Zealand companies by Devey (1982) and Ng (1985) revealed that there were no relationships between these variables. Another study by Maheswari (1992) on the other hand detected that size had a significant influence on environmental, energy and community disclosure but not on human resource and product disclosure. However, Guthrie and Mathews (1985) argued that the result derived from Devey and Ng might be due to their sample size being small. On the contrary studies conducted by Belkaoui and Karpik (1989), Hackston and Milne (1996), Adams, Hills and Roberts (1998) and Choi (1999) found that there was a positive relationship between size and the content of CSD. Legitimacy Theory foresees that larger firms will disclose more information in their Annual Reports as they aware that they are being monitored by external parties and to legitimize its behavior. Therefore our first hypothesis is;

H1: *There is a positive relationship between CSD and the size of bank and finance companies in Malaysia.*

In this study the total asset of the firm is chosen as a measurement for size. In Malaysia, size of banking institutions and it ranking was based on total assets (Bank Negara Malaysia, 1999). However, there is no theoretical reason given for particular measurement of size (Hackston and Milne, 1996 and Choi, 1999). Other measurements for size employed in previous CSD studies are annual sales, market capitalization and number of employees.

Financial performance. Return on equity (ROE) and return on assets (ROA) have been used in prior studies as the measurement for financial performance (e.g. Banker et al. 1996; Cowen, 1987; Patten 1991; Roman, Hayibor and Agle, 1999). Singhvi and Desai (1971) suggested profitability as a hint of good management and future earnings power. Roman et. al. (1999) conducted a review on the past 25 years' studies (52 in all) regarding the relationship between financial performance and CSD. They discovered that 33 studies found positive relationship, 14 studies produced inconclusive result and 5 studies detected negative relationship between financial performances and CSD. According to Roman et al. (1999); "The negative and inconclusive result was due to invalid and missing Corporate Social Performance and Corporate Financial Performance measures were not undertaken to investigate those relationships specifically. Second, we believed that it is time to admit methodological shortcomings of much of the early works in this area."

Patten (1991) measured profitability variable using short term and long term ROE (5 year average). The result showed that for short-term measurement there was a positive relationship while for long term the result showed no relationship. Hackston and Milne (1996) replicated the profitability measurement and methodology used by Patten for New Zealand companies and then the results concurred with the Patten (1991) findings. Hackston and Milne (1996) explained that by measuring profitability (ROA and ROE) using extended period of time will provide more reliable measurement for corporate performance. From the author's point of view it was not fair to test long term profitability against CSD in single reporting period because the amount of CSD disclosed by companies may differ across time. For this reason this study will specifically investigate the relationship between CSD and short term profitability as suggested by Roman et al. (1999). Based on the above argument, the second hypothesis is;

H2: *There is a positive relationship between CSD and financial performance of Banks and finance companies in Malaysia.*

The measurements used for this study is ROE (Roman et al. 1999), because this measurement was suggested in prior researches measuring banking institutions financial performance (Michael, 2000).

Corporation age. The age of a bank or finance companies, like any other corporation or business entities may influence the quantity of CSD. A study by Choi (1999) revealed that age of corporation for Korean listed companies is related to quality of environmental disclosure. It may be due to the Legitimacy Theory which predicts that the age of a corporation is related to its reputation in the society and its history of involvement in CSD activities. Age of corporations is measured by the number of years the company has been in operation since its inception up until 1999. Therefore our next hypothesis is;

H3: *There is a positive relationship between CSD and the age of bank and finance companies in Malaysia.*

Listing status. One of the purposes of a company seeking listing in a Stock Exchange is to obtain external financing. In countries where capital market is the main source of financing the disclosure level is high compared with countries that rely on debt financing (Saudagaran, 2000). A study by Teoh and Thong (1984) revealed that listed companies in Malaysia disclosed higher CSD than unlisted firms. The reason given by both researchers was that a company derived tangible benefits from disclosing social activities. We predict that the level of social disclosure by listed firms will be higher than unlisted firms. With difference in sampling and time period this study re-examines the influence of listing status on CSD practiced by bank and finance companies in Malaysia. Accordingly our next hypothesis is:

H4: *The extent of CSD is significantly higher for the firms that are listed in KLSE as compared with non-listed firm.*

Company profile. Earlier researchers such as Choi, 1999; Hackston and Milne, 1996; Newson and Deegan 2002; Patten, 1991, suggested that companies can be categories into industries that they are involved in with the aim to find the relationship between companies characteristics and the amount of CSD. These categories can be divided into high profile and low profile industries. High profile industries as defined by Roberts (1992) "as those with consumer visibility, a high level of political risk, or concentrated intense competition." This classification poses higher subjectivity and in ad-hoc basis (Hackston and Milne, 1996). The majority of prior studies found that there were significant influences between industry profile and the level of CSD (Chooi, 1999;

Hackston and Milne, 1996; Newson and Deegan 2002; Patten, 1991). That study categorizes companies based on to the industries there are engaged in. For example, companies which are actively involved in the petroleum and chemical industries are considered high profile industries due to consumer visibility and high level of political risk (Hacton and Milne, 1996; Newson and Deegan, 2002). However, to the author's knowledge, there were no prior researches which classified company's profile based on the industries they belong to. In this study, companies in the banking industry will be classified into high profile and low profile company (instead of industry). In Malaysia commercial bank as a whole is the main player in the banking system as compared with finance companies and merchant banks (Bank Negara Malaysia, 1999). As at end of June 1999, total loans and deposit from the commercial banks amounting to RM285.1 Billion (1USD = RM3.83) and RM287.6 Billion which representing 76% and 71% of total banking system loans and deposit respectively (BNM, 1999). For example, in 1999, Malaysian central bank announced major consolidation and rationalization exercise for domestic banking system. 10 local commercial banks were selected from 52 local banks and finance companies inclusive of merchant banks, as an anchor bank (Bank Negara Malaysia, 1999). Based on these reasons the merge commercial banks are considered as high profile companies. From the author's assumptions it may contribute in developing CSD theory because classifications in a single industry will show the influence of the high profile companies in CSD. Therefore our final hypothesis is;

H5: *The extent of CSD is significantly higher for commercial banks (high profile companies) as compared with non-commercial (low profile companies).*

Research methodology

Data collection

In this study Annual Report has been chosen as the reporting medium by banking institutions. In addition the basis of using Annual Report has been consistent with previous research (Belkaoui and Karpik, 1989 and Unerman, 2000). The reason for using Annual Report is that it has been taken can be as a channel for the communication of messages provided on a regular basis and it has been widely recognized in prior researches that information contained in it possess higher credibility. (Belkaoui and Karpik, 1989; Tilt, 1994; Gray et al., 1995a; Baker and Nasser, 2000; Unerman, 2000).

Nevertheless other medias were also being employed in CSD studies. For example, Tilt (1994) conducted a study on the influence of external pressure group in Australia on CSD made by Australian companies. In his study, besides using Annual Report as a medium for reporting on corporate social disclosure, other media were also used. They included: Supplements to Annual Report produced at interim dates; Booklets or leaflets produced to address the social activities of the company; Advertisements or articles published detailing company's activities; Labeling of products to promote environmental and/or other concerns." The respondents consisted of 146 external pressure groups, such as environmental and non-governmental organizations located in Australia. Results of the study revealed that Annual Report was ranked highest as compared with other media. These external pressure groups also wanted the Annual Reports concerning social activities to be audited to enhance the credibility of the Report.

Table 1. Sample of banking institutions

ITEMS	Commercial Banks	Finance Companies	Merchant Banks	Total
Population	33	21	12	66
Sample	26	12	10	48
Sample/Population (%)	79	58	84	72

The original sample of this study composed all banking institutions in Malaysia. As at 31st December 1999 there were 66 banking institutions operating in Malaysia with total assets of RM638.3 billion (USD1 = RM3.80) (Bank Negara Malaysia, 2000). The sample comprises commercial banks (Malaysian and foreign banks), finance companies and merchant banks. Analysis for CSD is confined to the year 1999 only. The Annual Reports were gathered from the three libraries in Malaysia namely Malaysian Central Bank, Banking Institute of Malaysia and Kuala Lumpur Stock Exchange. Where the Annual Reports were not available letters were forwarded to each banking institutions for requesting the Annual Report. The breakdown for the final sample of this study is shown in Table I.

Methodology

Content Analysis has been widely employed in prior studies to measure the quantity of CSD (eg. see Guthrie and Parker, 1989; Gray et al. 1995a, 1995b, 2001; Hacton and Milne, 1996; Newson and Deegan, 2002; William and Pei, 1999). Various authors (Krippenderoff, 1980; Weber, 1988; Neuendrof, 2002) have proposed formal definitions for content analysis.

Krippendrof (1980) defined Content Analysis as a research technique for making a valid inference from the data according to their content" and Waber (1988) defined it as a method of codifying text (or content) of a piece of writing into various groups (or categories) depending on selection criteria. Krippendrof (1980) and Neuendrof (2002) have recommended essential stage process as guidance in any content analysis study. There are three essential processes for Content Analysis embodied in the current CSD study. The first process is deciding the document to analyse. This research has used Annual Report as the document to analyse CSD for reasons discussed in the previous section.

The second process in Content Analysis is to determine the measurement for CSD theme. A review of the prior literature indicated that there are three different methods of measurement namely words (Deegan and Gardon,1996; Zeghal and Ahmad,1990), sentence (Hackston and Milne, 1996; Milne and Adler, 1998; Tsang, 1998) and pages (Gray et al. 1995a, 1995b, 2001; Hackston and Milne, 1996; Newson and Deegan, 2002, Patten, 1991).

However the appropriate analysis unit used in CSD study has been widely debated in literature (Gray et al, 1995b; Tilt, 2001). For example proportions of pages have been criticized by Lavers (1993) because there is an element of subjectivity due to differences in font size, margins and graphics, and the difference between one Annual Report to another (Hackston and Milne, 1996; Ng, 1985; Tilt, 2001). The second measurement of words is also questionable as individual words do not convey any meaning without a sentence to provide the context (Milne and Adler; 1999; Tilt, 2001). The third measurement was based on sentences. Ingram and Frazier (1980) and Unerman (2000) argued that the sentence measurement may be applied with less issue of judgment. Based on the above discussion and for this reasons probably most reliable measure (Gray et al. 1995a, 1995b, 2001; Hackston and Milne, 1996; Newson and Deegan 2002 Patten, 1991) this study will use page as a measurement for CSR for the quantity of CSR disclose.

The third and final process in content analysis is to develop checklist instrument. This process involves the selection of categories or dimensions in disclosure theme. For this study the checklist instrument categories CSD into environment and energy, human resource, product or services and community. The definitions applied in the checklist were derived from extensive review of prior literature based on earlier work by Ernst and Ernst (1976). It also covers the major theme as discussed in the Literature Review Section (Belkaoui, Belkaoui and Karpik, 1989; Guthrie and Parker, 1989; Gray et al., 1995; Williams and Pei, 1999; MACPA, 1999) and matched with potential disclosure for firm, as evident from prior research in Malaysia.

Guthrie and Parker (1989) and Grey et al. (1995a and 2001) have advised on the importance of distinguishing between mandatory and voluntary theme in CSD studies. In Malaysia, all the CSD items are treated as voluntary disclosures (MACPA, 1999).

The inter-coder reliability is the main concern in conducting CSD study using Content Analysis (Guthrie and Parker, 1989; Hackston and Milne,1996 and Tilt,2001). To minimize inter-coder reliability, some precautionary measures suggested by Hackston and Milne (1996) and Tilt (2001) were adopted to ensure reliability.

First, both authors cum as a coder have to discuss the existing literature relating to CSD with the aim of enhancing their understanding.

Secondly, both coders should review a small sample of Annual Reports independently and proceeded with coding process using checklist instrument. The coded data will then be compared and if discrepancies exist the Annual Report should be reanalyzed and any differences resolved. Accordingly both authors should analyze the remaining Annual Reports.

Data analysis

The OLS regression is used to assess the effect of each independent variable on the CSD. The following model is tested;

$TDI = \alpha + \beta_1$ Nat log of Assets $+ \beta_2 ROE + \beta_3 AGE + \beta_4 Listing + \beta_5 Profile + \in$

Where;
TDI = total disclosure index measured by pages to the nearest one hundredth of page;
Assets = natural log of book value of total assets;
ROE = return on equity (profit available for distributions / Shareholders fund)
Age = no of years from inceptions until 1999
Listing = one if listed at KLSE or zero if not listed
Profile = one if firm business is commercial banking or zero if business is in merchant banking or finance companies
$\in$ = disturbance term
α, βI = Constant or parameters to be estimated, i = 1,…..5.

This model is replicated from Patten (1991) and Hackston and Milne (1996) with some modifications by including independent variables of age, listing status and company profile.

Analysis, result and discussion

Consistent with prior research (Newson, Deegan, 2002) the first result to be reported and discussed was the descriptive analysis for the CSD measurement as presented in table 2 and 3.

Table 2. Descriptive statistics for amount of disclosure (banks and financial institution only)

Theme	Disclosing Companies (making at least one disclosure)	Disclosing companies as a percentage of total sample	Number of Disclosed pages	Disclosed pages as a percentage of all disclosed pages
Environment	1	2.08%	0.16	0.27%
Human resources	28	58.33%	9.68	16.26%
Community	14	29.17%	16.23	27.25%
Product	34	70.83%	30.89	56.22%
Total			59.96	100.00%

The primary objective of this research is to investigate the nature or type of social information disclosed by banks and finance companies. Table II reports the percentage of companies disclosing CSD theme in their Annual Report. As can be seen product disclosure at 34 ranks the highest among other CSD theme, not less than 70.83 percent bank and finance companies making such disclosure. The second highest disclosure theme is human resources. The lowest theme is environmental disclosure and this may be due to the perception that banking and finance activity has little impact on the environment (Clark and Sweet, 1999).

The example of environmental disclosure disclose by Public Finance Berhad was "Public Finance create history by being first financial institutions to implement a support the environment programmed by entering into a "waste wise" partnership with Alam Flora Sdn Bhd."

Although not shown in table II, at least 39 or 81.25 percent of bank and finance companies made at least one disclosure. The firms that did not disclose may have assumed that there is no reason for them to tell others what they are doing. In general, the result portrays the fact that the prospect for CSD especially by Malaysian financial institutions is quite encouraging. Some examples of product disclosure made by a particular bank, Maybank Bhd., are listed below;

Product safety

With the growing prominence of Internet banking, the Group was among one of the pioneer local financial institutions to empower its credit card holder with secured cyber shopping capabilities.

Product quality

In line with the effort to improve customer service, the Branch network continued to be reconfigured. The basic objective of the exercise is to convert the traditional Branch network into customer oriented sales outlet by centralizing support functions. This will free Branch personnel to focus on addressing customer needs and delivering superior service quality.

Comparing the results with Teoh and Thong (1984) and MACPA (1999) studies on the highest disclosure theme, differences do exist mainly due to sample size. Samples of prior studies consist of several industries while this research concentrates on a single industry. As suggested by Griffin and Mahon (1997), studies of CSD in a specific industry will show some specific pattern in disclosure theme where all the social item are treated equally. Appendix I shows the incidence of total social disclosure for banks and finance companies.

Table III provides descriptive statistics for disclosure theme and the independent variables measurement for size, profitability, listing status, age and profile. On the average, product theme accounts for 0.64 page which is the highest among the disclosure themes. Applying mean statistics it appears that community disclosure theme ranked second. The standard deviations figure for environment disclosure (0.023) is large relative to their means (0.003) and the gap between the maximum (6.92) and minimum value shows the lowest disclosure for this theme. The skewness and kurtosis for environmental and human resource theme are positive skew indicating smaller number of companies disclosing relatively large amount of information.

Table 3. Descriptive statistics for disclosure theme and independent variables

Theme	Mean	SD	Min	Max	Skew	Kurt.
Environment	0.0033	0.0231	0	0.16	6.9282	48
Human Resources	0.2016	0.2902	0	1.5	2.5202	8.2466
Community	0.3386	0.6743	0	2.7	2.0285	3.3939
Product	0.6435	0.8527	0	3.4	1.5214	1.7004
Dependent Variable						
Social Disclosure Item (SDI)	1.1867	1.6413	0	7.6	2.0218	4.4577
Independent Variables						
Asset	6.6905	0.5596	5.36	7.94	-0.106	-0.85
ROE	0.0038	0.2929	-1.19	0.75	-1.552	5.992
Listing Status	0.3958	0.4942	0	1	0.440	-1.887
Age	40.937	23.981	14	124	2.193	4.661
Profile	0.5417	0.5035	0	1	-0.173	-2.058

On the assumption that the amount of CSD is an indication of perceived importance of the related issue it can be said that product disclosure is considered more important than other CSD themes. Its may suggest that players from this industry try to introduce more competitive banking product to attract depositors and the public to use their services. Furthermore, during the Asian financial crisis comparatively greater impacts were felt by the banking and financial institutions. Hence, possibly by making more disclosures on product and community will create confidence among depositors, investors and the public to place their money with their institutions and also to maintain its goodwill. According to Legitimacy Theory postulates on the four board legitimized strategies used by organizations to face legitimacy threat (as suggested by Dowling and Prefer, 1975; and Lindblom, 1994) the companies may assume that by providing more information on product disclosure theme they will be able to influence the society and the stakeholders' perception about the company. Another alternative assumption is that the information disclosed by a firm may be purposely provided to show its strength in developing new products or services. Furthermore, during the period under study, the Malaysian government had requisitioned the local financial institutions to merge. The authors have tried to relate those regulations with Legitimacy Theory, specifically with listing status where all the anchor banks are listed companies. The secondary objective of this study is to examine the factors that could motivate companies to disclose social information in Annual Reports. To examine the possible relationship between independent variables and dependent variable, t-test and regression analysis were conducted.

Table 4. T statistics for Independent sample of Listing Status

	N	mean	SD	t-value
Listed	19	2.4956	1.9488	4.768*
Unlisted	29	0.3310	0.4641	
*p<0.05				

Table 4 above shows significant difference in mean amount between listed and unlisted firms. Listed companies disclosed significantly more social information as compared with unlisted firm. It is noteworthy that of the listed financial institutions are anchor banks. The t-value and two tail p statistics validate the result on the significant difference between those listed and unlisted firms. This finding is consistent with the work by Teoh and Thong (1984). The t-test in Table IV above also provides evidence to accept the fourth Hypothesis which states that the extent of CSD is higher for firms listed in the Kuala Lumpur Stock Exchange as compared with unlisted firms.

Table 5. T statistics for independent sample of companies profile

	N	mean	SD	t-value
High Profile	26	1.5062	1.7581	1.485*
Low Profile	22	0.8091	1.4401	
*p>0.1				

Table 5 above provides the result of the test to determine significant difference in mean score between high and low profile companies. The mean, SD and p statistics indicate that the decision to disclose social information is not significantly associated with the company profile and hence the fifth hypotheses (company profile) are rejected. Most of the prior studies have found significant influence between industry profile and level of CSD (eg. Choi, 1999; Hacton and Milne, 1996; Newson and Deegan, 2002; Patten 1991). The difference in the result here is due to the classification process that involved higher subjectivity (Hacton and Milne, 1996). Prior studies divided industry profile based on the macro aspect of the industry activity categorized by their main business activity, for example, service industry (low profile) and chemical related activities (high profile). The authors have viewed the industry profile based on micro perspective in a single industry (banking and finance) and classified it on the basis of definitions suggested by Roberts (1992).

Table 6. Pearson correlation coefficients for continuous independent variables

	Pages	Size	Return on Equity
Size	0.534*		
Return on Equity	0.192	-0.004	
Age significant at 0.01	0.003	0.269	-0.061

Table VI shows that the continuous variable size is positively correlated with the amount of the social disclosure and this may indicate that larger banks and finance companies disclose more social information. Table VI also shows the relationship for the two independent variables i.e. return on equity and age of corporation towards the decision to disclose social information.

Table 7. Regression result between dependent variable and independent variables

	B	SE B	Beta	T	Sig t
Size	0.998	0.393	0.359	5.543	0.0075
Return on equity	1.440	1.367	0.096	1.054	0.149
Age	0.01	0.009	0.141	1.302	0.1
Profile	-0.304	0.384	-0.126	-0.884	0.382
List	1.586	0.302	0.594	5.246	0.000
Constant	-6.571	2.501		-2.628	0.006
Regression Measure		ANovA	df	Sum of squares	
Multiple R = 0.815		Regression	5	1191.53	
R square = 0.664		Residuals	42	603.32	
Adjusted R square = 0.624				F = 16.589	Sig. F = 0.000
Standard error = 3.7901					

Table 7, above reports on the regression results based on the model discussed in the methodology section. The model appears significant since it explains 62 percent of the variations and sum of square residuals is lower than the regression in ANOVA, indicating that the model accounts for most of the independent variables (Hackston and Milne (1996) reported 46 percent, Patten (1991) reported 25 percent). The difference in results may be due to difference in sample size and the number of independent variable employed in earlier model. Hackston and Milne (1996) and Patten (1991), test the relationship between CSD and independent variable of size, profitability and industry profile. The multicollinearity problem was minimal based on the VIF measurement which shows scores below two. According to Judge et al (1988) if VIF value is 5.0 or more, multicollinearty problem may exist. The regression coefficient for size, age and listing status are significant at 10 percent or less as where for profitability and profile coefficients the relationships are not significant. The following paragraphs will interpret the regression result using the individual coefficients.

Firstly the significant and positive association between the disclosures of social information with size of the business may indicate that larger firms disclose more CSD as compared with smaller firms. The results may support the first Hypothesis and are also consistent with prior studies (Adams et al,. 1998; Belkaoui and Karpik, 1989; Chooi, 1989; Hackston and Milne, 1996). The evidence may support the legitimacy theory or agency theory. Belkaoui and Karpik (1989) use the size relationship to claim support for the agency theory, while Patten (1991) and Gray et al. (2001) claims the relationship support legitimacy theory. Therefore, evidence on size relationship cannot be support or reject either theory.

Secondly, highly significant and positive association between the listing status and the decision to disclose social information may be related to the association between the size variable. However a multicollinerity test was conducted in which the VIF is 1.6. This result has been consistent with Teoh and Thong (1984) studies. As mentioned above all of the anchors banks are listed companies and this factor might possibly influence the level of disclosure.

Thirdly, the marginally significant at 0.1 (one-tail) and positive association of social disclosure with corporation age is consistent with Choi (1999) study that supports the Legitimacy Theory postulate, where the age of corporation is related to its reputation and history involvement in CSD activities. As such this result supports the third Hypothesis.

Fourthly the least significant and positive association between profitability variable and CSD may indicate that the decision to disclose social information is not influenced by the level of profitability. The result for profitability is not consistent with prior studies for the measurement on single reporting period (Roman et al., 1999). It may indicate that the Asian financial crisis during 1997 and 1998 affected the profitability of banking institutions. Alternatively it may indicate that the measurement used on this variable may be explained more suitably in a stable income period.

The fifth and the final variable is company profile which is insignificant and produce a negative regression coefficient. As discussed in the t statistic result above the insignificant and negative regression coefficient may be due to the analytical method used in this study.

With reference to the variables size, listing status and age the positive association may support the legitimacy postulate, which says that firms would provide information with the aim to influence society and stakeholder perceptions about a company. Therefore, companies may use legitimized strategies when they faced legitimacy threats. Large, listed and long established organization may motivate company Managers to disclose social information. Company which did not disclose social information, particularly unlisted may see no reason for them to publish their social activities. As such this information is only circulated among themselves internally. As suggested by Patten (1991) under the Legitimacy

Theory the decision to disclose social information is related to public pressure variable rather than profitability. The public pressure variables here refer to size, listing status, age of business and company profile. For the company profile variable as discussed in t-test above the negative result maybe due to methodology employed which may involve some degree of subjectivity (Hackston and Milne, 1996).

Based on the above discussion and after considering the effects between the dependent and independent variables relating to Legitimacy Theory the evidence may suggest that both theories may be related to explain alternative motivation made by managers to disclose social information. As commented by Gray et al. (1995a and 2001), the authors wish to remind that CSD practice is a complex activity that cannot be fully explained by a single theoretical perspective or from a single level of resolutions.

Conclusions

This study presents empirical investigations on the CSD practiced by banks and finance companies in Malaysia. By replicating overseas studies using similar measurement techniques, these studies provides may provide explanations for why companies make social disclosure. There are three main contributions of this study towards the CSD literature. First this study unlike the previous researchers investigates CSD practice in the highly regulated industries, e.g. banks and finance companies. Secondly, it has been conducted within specific industries. Thirdly, this study also examines some possible relationship between social disclosure practice and firm characteristics with reference to Legitimacy Theory.

The prospect of CSD in Malaysia especially in banking industries appears encouraging. Almost 81.29 percent from the sample taken at least one engages in social disclosure. On the average product disclosure theme is the highest ranked among disclosure themes. Similar to the prior researches the result may suggest that the content of CSD is an indication of some important issues in the period under study. Following the Legitimacy postulate on threat (Patten,1991) and strategy (Dowling and Preffer, 1975; and Lindblom 1994), it is assumed that the highest disclosure in product theme will influence the public perceptions on the performance of the firm. Another assumption is that during the Asia financial crisis, the greater impact fell on banking and finance institutions, hence by making such disclosure it will create confidence among investors and public to place their money with them.

Firm size, listing status and age of business were found to be supporting the legitimacy theory postulate. Furthermore for the profitability variable the result supports Patten's (1991) suggestion that the decisions to disclose social information has been related to public pressure variable rather than profitability variable.

In addition the insignificant and negative result for company profile may be due to analytical method used in this study because the classification used was subjective (Roberts, 1992 and Hackston and Milne, 1996).

Like most researches, this study also has its own limitations. Firstly the period of study has been a single year. More evidences are needed on the amount of disclosure theme to support legitimacy threat and strategy in highly regulated industries especially in banking and finance sectors before any generalization can be made.

Therefore longitudinal studies can be made in Malaysia or other countries to find further evidence. Secondly, as suggested by Patten (1991), future research in CSD can be carried out on the public pressure variable that may motivate managers to disclose social information.

This study only adds two variables namely age of business and listing status. These two variables can be tested on future CSD study before any conclusion can be made.

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Appendix 1. Incidence of social disclosure by banks and finance companies

Banks and Finance Companies	SDI
Public Bank Berhad	7.6
Public Finance Berhad	5.55
Malayan Banking Berhad	4.29
Hong Leong Bank Berhad	3.78
Mayban Finance Berhad	3.53
Multi-Purpose Bank Berhad	3.2
RHB Bank Berhad	3
Arab-Malaysian Merchant Bank Berhad	2.89
Bumiputra-Commerce Bank Berhad	2.79
PhileoAllied Bank Berhad	2.15
Ban Hin Lee Bank Berhad	1.9
Aseambankers Malaysia Berhad	1.85
Commerce International Merchant Bankers Berhad	1.5
BSN Commercial Bank Berhad	1.5
ABN AMRO Bank Berhad	1.42
Bank Utama (Malaysia) Berhad	1.33
Perwira Affin Bank Berhad	1.2
Standard Chartered Bank Malaysia Berhad	1.06
EON Bank Berhad	0.76
Oriental Bank Berhad	0.6
Bank of Tokyo-Mitsubishi (Malaysia) Berhad	0.54
United Overseas Bank (Malaysia) Berhad.	0.43
Malaysian International Merchant Bankers Berhad	0.42
Overseas Union Bank	0.41
Amanah Merchant Bank Berhad	0.38
Pacific Bank Berhad	0.35
International Bank Malaysia Berhad	0.34
Hock Hua Bank Berhad	0.33
Arab-Malaysian Finance Berhad	0.28
Bolton Finance Berhad	0.27
United Merchant Finance Berhad	0.2
Credit Corporation Malaysia Berhad	0.2
Asia Commercial Financs Berhad	0.19
BSN Finance Berhad	0.18
Utama Merchant Bank Berhad	0.14
EON Finance Berhad	0.12
RHB Sakura Merchant Bankers Berhad	0.1
Bangkok Bank Berhad	0.09
Southern Bank Berhad	0.09
Affin Merchant Bank Berhad	0
Bumiputra Merchant Bankers Berhad	0
Perdana Merchant Bankers Berhad	0
BBMB Finance	0
Delta Finance Berhad	0
Perdana Finance Berhad	0
Citibank Berhad	0
HSBC Bank Malaysia Berhad	0
Wah Tat Bank Berhad	0