

The link between Corporate Social Performance and Institutional Investors' Shareholdings in Malaysian Public Listed Companies

Jothimani K. Muniandy and Lisa Barnes *

Despite emerging trends in developed countries, of a positive association between corporate social performance and institutional investors' shareholdings in business, developing countries are not exhibiting this link. For example Institutional investors are taking a short-term view to investments in Malaysian Publicly Listed Companies (PLCs), focusing on profit maximization only. Their priority stakeholder appears to be their investors who expect high financial returns. When handling Socially Responsible Investment (SRI) funds, institutional investors tend to rationalize profit maximization. Findings showed that 83 % of PLCs listed on Bursa Malaysia make corporate social performance disclosures, even though these disclosures differ in scope, content and structure across the firms. The diversity in the disclosures is attributed to the contextual nature of CSR. The context of the conflicting interests of the firm and its stakeholders, as well as the culture and personal, religious and ethic values of the managers are considered influencing factors.

Keywords: Corporate Social Responsibility, Socially Responsible Investment.

1. Introduction

This research explores the concept of Corporate Social Responsibility (CSR) (Wood, 1991; Moir, 2001) of business corporations and investigates the relationship between Corporate Social Performance (CSP) (Carroll, 1979; Wood, 1991; Wartick & Cochran, 1985) and Institutional Investors' Shareholdings (IIS) (Millington, 2004; Cox, Brammers, & Millington, 2004) in the 100 largest, (by market capitalization), Malaysian Public Listed Companies. CSR proponents argue that CSR is about how a business makes money and not how it spends its money; that CSR is a journey by business rather than a destination and that business should integrate responsible business practices into its fundamental business operations. Moir (2001) views CSR as a continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce, their families and the local community. The definition proposed by the Prince of Wales, in Business Leaders Forum 2003 states that, CSR means open and transparent business practices

* Lisa Barnes is a Lecturer in Accounting at the School of Business and Management, University of Newcastle, Australia. Address for correspondence: Lisa.Barnes@newcastle.edu.au PO Box 127 Ourimbah, NSW Australia, Ph 0061 2 43484157 Fax 0061 2 4348 4101
Dr.Jothimani M.Head Market Intelligence,Bursa Malaysia Bhd.Tel: +60320347350

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that is based on ethical values and respect for employees, communities, and the environment. It is designed to deliver sustainable value to society at large, as well as to shareholders and CSR means that a firm should carry out its business ethically, taking into consideration all its stakeholders' concerns.

Due to the stakeholder theory that provides a perspective of multiple stakeholders, CSP has also been described as a multidimensional construct comprising initiatives undertaken in several dimensions. Studies have identified employee, community, women and gender issues, environment and product safety as dimensions of social performance (Hillman and Keim, 2001, Griffin and Mahon, 1997 and Johnson and Greening, 1999). Commercial CSP databases such as Kinder, Lydenburg and Domini Inc. (KLD) and Ethical Investment Research Service (EIRIS, 2003), have defined dimensions based on the identity of the stakeholders that the firm wishes to address. KLD identifies eight (8) dimensions for CSP that has been used in many CSP measure studies in Europe and the USA (Graves & Waddock, 1994). The eight dimensions of CSP by KLD are: community relations, employee relations, environmental issues, military issues, product issues, South Africa issues, nuclear power, and women/minority issues. There has been academic debate on what dimensions should be used in the measurement of CSP (Gray et al, 1996; Hackson and Milne, 1996; O'Dwyer and Gray, 1998; Adams and Harte, 1998; Williams and Pei, 1999; Campell et al 2003; Ratanajongkol et al, 2006; Nielsen and Thompsen, 2007).

For many companies in the western developed countries like U.K., U.S.A. and Australia, managing CSR is no longer a burden. Rather, CSR is increasingly viewed as making good business sense and contributing to the long-term prosperity and survival of the firm (WBCSD 2000). However, in many developing countries such as Malaysia, CSR has been reported to be just at its infant stage (Belal, 2001; Teoh & Thong, 1984; Tsang, 1998; Kuasirikun and Sherer, 2004; Singh and Ahuja, 1983; Kisenyi and Gray, 1998). Until about 2004, awareness of CSR by PLCs in Malaysia was noted to be relatively low (Zain, 1998: Andrew et.al.1989).

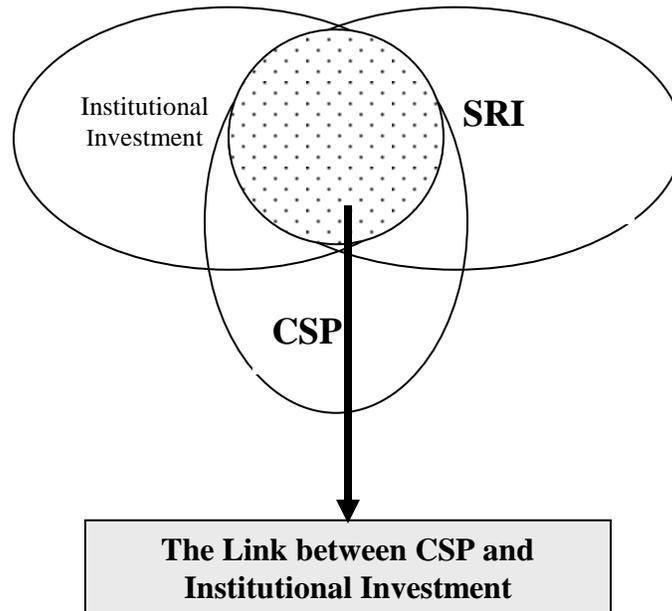
2. The Literature

CSR definitions tend to carry strong normative connotations. Terminologies such as business ethics, corporate citizenship, and eco-ethics have been associated with CSR (Ranganathan, 1998: Ward 2000). CSR is not defined in terms of how it is to be practiced, monitored or measured. However, with the emergence of the concept of corporate social performance, (CSP), an element of measurement has been included, and the concept takes on an instrumental connotation as well. Wood (1991, p. 693) defines CSP as a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships. Wood stresses the importance of measuring

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observable outcomes of a business's CSR actions and practices in determining a firm's CSP. In short, the notion that CSP should be a measurable construct, has been generally accepted.

**Figure 1: The Focal Research Area:
An overlap between Literature on Institutional Investment, SRI and CSP**



CSR activities in PLCs were limited to mainly community investment and environmental initiatives, mooted mainly by social and welfare oriented associations and NGOs, in a rather piecemeal and isolated manner. The Malaysian branch of the WBCSD, the Business Council for Sustainable Development Malaysia, (BCSDM) in existence since 1980, works closely with International Organisations, like the World Bank, OECD, and UNDP, and with various government agencies and local professional associations, in addressing a wide number of sustainable development issues, not just confined to CSR.

The Association of Certified and Chartered Accountants of Malaysia, (ACCA), whose main interest is the corporate accounting standards, focuses on triple bottom line (TBL) reporting and promotes the implementation of global reporting initiatives (GRI). The National CSR steering committee chaired by the Securities Commission of Malaysia makes an attempt to address CSR issues in an industry dialogue forum. The Committee has not been very active. The Institute of Integrity Malaysia (IIM) established in 2005 has a working committee looking into a holistic definition for CSR and at ISO26000. The Capital Market Master Plan of Malaysia, launched in 2001, aims to liberalize the Malaysian capital market, and contribute towards a favourable environment for investment in Malaysia.

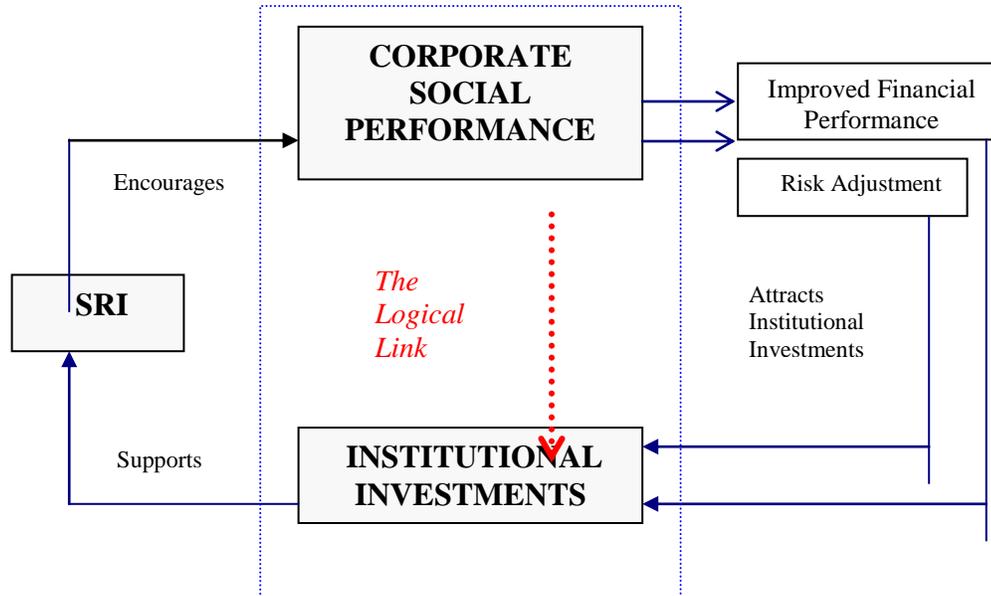
SRI is a process of identifying and investing in companies that meet certain standards of CSR. Whether described as social investing, ethical investing,

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mission-based investing, or socially aware investing, SRI reflects an investing approach that integrates social and environmental concerns into investment decisions. Haigh & Hazelton, (2004 p.60) define SRI "...as a term used to refer to the practice of directing investment funds in ways that combine investors' financial objectives with their commitment to social concerns such as social justice, economic development, peace or a healthy environment" Social investors include individuals, businesses, universities, hospitals, foundations, pension funds, corporations, religious institutions, and other non-profit organizations. Social investors consciously put their money to work in ways designed to achieve specific financial goals while building a better, more just and sustainable economy. Social investing requires investment managers to overlay a qualitative analysis of corporate policies, practices, and impacts onto the traditional quantitative analysis of profit potential.

Several reforms to liberate the Malaysian capital market have been recently initiated. Insurance companies are allowed up to RM300 million (a 75% increase), to be outsourced to external fund managers for investments; the once closed and guarded broking industry is now open to global foreign broking investors, Practice Note 17 of the Guidelines for Unit Trust Funds by the Securities Commission, now allows for free negotiation of trustee fees, and the Government is actively mooting the development of private pension funds (SC Annual Report 2004). The environment for institutional investments in Malaysia is more conducive today. However, despite the growing evidence that CSP is an outstanding concern of institutional investors, there are little initiatives by private or public agencies to empathetically educate and promote CSR in Malaysia with the aim of attracting SRI investments.

Figure 2: The Logical Link in the Relationship between CSP, Financial Performance, Risk and Institutional Investment.



(Adapted from Graves & Waddock (1997)'s Virtuous Cycle Concept for this study)

Local associations and non-governmental organizations (NGOs) occasionally moot the importance for PLCs to be socially responsible. (The Star November 2004). Media champions for CSR currently are the Sun and the Edge. However, no commercial database equivalent of KLD or EIRIS exists in Malaysia. No NGO or association, equivalent to the Business in Community (U.K.), the Association of Socially Responsible Investments in Asia, (ASRIA) or the Community in Business of Hong Kong, have been established in Malaysia. Despite the launch of global SRI indices such as the Dow Jones Sustainability Index, and The FTSE4Good, as well as the 2004 SRI index by the Johannesburg Exchange and FTSE's Japan SRI index, SRI indices have low profiles in the media and in news from Bursa Malaysia. Only one PLC has been listed on an international SRI index and is positioned to attract SRI funds: British American Tobacco (BAT), listed on the Dow Jones Sustainability Index. Even though Bursa Malaysia has announced the launch of a series of new indices (created in collaboration with FTSE) in June 2006, there is no mention of a possible SRI index for Malaysia.

The trend in increase of SRI in Europe and the USA is beginning to emerge in a slow but steady manner in SRI activity in Asia. ASRIA (2005) reports that the total SRI funds under management in Asia are less than US\$2.5bn, but are likely to increase substantially. Japan, the most developed SRI market in Asia ex-Japan has currently, 11 fund options for a total of almost US\$1 billion. Hong Kong has six global SRI fund options and there is one global eco fund for sale in Taiwan. In the rest of the Asian economies, there are few SRI options. There is only one fund option registered in Singapore. There is an Asian SRI fund

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launched by Henderson Global Investors, managed from London and "...boasts a credible 23% out performance of the benchmark since inception in 1998" (ASRIA, 2005).

Although the idea of SRI in its current definition encompassing the notions of stakeholder activism and the inclusion of social, environmental and governance criteria into investment analysis, is relatively new in Malaysia, the concept of socially responsible investment is not new. Since 1968, with the introduction of the Islamic funds Dana Al-Aiman (Failaka, 2003), Islamic Investment Funds have been a domestic financial product. These are joint pools of money contributed by investors who wish the funds to be invested in a socially responsible manner, in strict compliance the Islamic Syariah laws, in order to earn "halal" profits. Islamic Funds use exclusionary screenings to remove companies whose activities are considered immoral by Islam, such as companies engaging in 'sin' products and services such as gambling, alcohol, and tobacco. Currently, there are about 100 Islamic funds in the country with a total net asset value of RM9.2 billion (The Edge, 2004). Malaysia has the potential of exploring hybrid SRI funds incorporating the strengths of both SRI funds and Islamic funds to develop new SRI products.

There is lack of awareness on CSR and CSP in Malaysia. The corporate sector does not seem to be completely aware of the business benefits of CSR. The Malaysian PLCs do not seem to be fully aware of the increasing importance of SRI funds and its potential as capital for investment. There is thus lack of awareness of the catalytic role played by corporate social performance of PLCs in attracting SRI funds from Institutional investors.

This study then investigates the relationship between the dependant variable, Institutional Investors Shareholding (IISH) and the independent variable, CSP in the top 100 Malaysian PLCs. The following research questions are addressed in this study:

- i) What is the pattern of CSP in the top 100 Malaysian PLCs as measured by the corporate social disclosures in the annual reports of these corporations?
- ii) What is the correlation between CSP and IISH in these corporations?

3. Method of Enquiry

The sample used in this study was the top 100 Public Listed Companies (PLCs) by market capitalization on the Main Board of Bursa Malaysia. The key variables in this study were, firstly, the institutional investors' shareholdings (IISH) in the PLCs, which are the dependent variable, secondly, a CSP index derived from a composite measure of CSP and, finally, the control variables, being industry, the firm size by market capitalization, and firm profitability. The research design catered for measuring the CSP of the sample PLCs in order to address research question 1 and also for determining the IISH and CSP Index in order to address

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research question 2. The methodologies used in this research design included content analysis of the annual reports of 2004, of the sample PLCs, a questionnaire to a group of institutional investors who invest in the public listed companies on Bursa Malaysia and telephone interviews whenever necessary.

While this study advances recent works (Cox et al. 2004; Johnson and Greening 1999; Ryan & Schneider 2002), this investigation in the Malaysian context, is, in particular, limited, both, by the lack of access to company CSP databases pertaining to independent ratings of corporate CSR information, (the equivalent to the commercial databases EIRIS or KLD) and limited access to published empirical work done in Malaysian context. Empirical studies on investigating CSR practices in the Malaysian Companies and the South East Asian region have been mainly confined to perception surveys or content analysis of CSR disclosures in the annual reports of the companies (Teoh & Thong, 1984; Tsang, 1998; Kuasirikun and Sherer, 2004; Singh and Ahuja, 1983).

The composite measure of CSP for each company was computed based on the methodology used by Graves & Waddock (1994) and further developed by Ruf et al (2001). There are three (3) important aspects to this methodology; the determination of the dimensions of CSP; the independent evaluation of CSP for each dimension in each PLC, and the evaluation the relative importance of the dimensions by institutional investors.

The key variables in this study are:

- i) The dependent variable: Institutional Investors' Shareholdings in the Public Listed Corporations;
- ii) The independent variable: CSP of the Public Listed Corporations as measured from the corporate social disclosures in the annual reports of these corporations; and,
- iii) The control variables: industry, the firm size and firm profitability.

Ho = There is no relationship between the CSP and Institutional Investors Shareholdings of the top 100 Public Listed Companies in Malaysia: and

H1 = There is a positive relationship between the CSP and Institutional Investors Shareholdings of the top 100 Public Listed Companies in Malaysia.

A multi linear Regression was done as extension of the bivariate correlation to investigate the prediction of IISH from the 4 categories of the independent variable, CSP. Thus the multiple regression equation used for the test was as follows:

$$y = b + b_1CSP_1 + b_2CSP_2 + b_3CSP_3 + b_4CSP_4.$$

y = Institutional Investors Shareholdings b = a constant,

b₁, b₂, b₃ and b₄ would be the coefficients of CSP₁, CSP₂, CSP₃ and CSP₄ respectively, and CSP₁ = E, CSP₂ = C, CSP₃ = MP, and CSP₄ = WP.

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The results facilitated investigations on which dimensions of CSP were better predictors of the IISH.

4. Data Analysis

The 2004 annual reports of the PLCs were used to evaluate the CSP scores for each dimension of CSP, the composite CSP and CSP index. Wherever a PLC supplemented its annual report with a separate environmental report, social report or a sustainability report, this document was taken to be part of the annual report for purposes of content analysis. Though the study sample initially consisted of the top 100 PLCs listed on the main board of Bursa Malaysia, by market capitalization, four (4) of the companies dropped off the list as the annual reports were either unavailable or incomplete. Two (2) more did not have the information required for the control variables as they had just been listed on the exchange. The final study sample comprising 94 PLCs was deemed large enough to support the statistical analysis techniques chosen for the investigation (Stone, 1999).

Table 1: Representation of PLCs by Industry Type

Industry Type	Frequency	Percent
Trading Services	27	28.7
Finance	17	18.1
Consumer Products	12	12.8
Industrial Products	10	10.6
Plantations	10	10.6
Property	8	8.5
Construction	6	6.4
Infrastructure Projects	4	4.3
Total	94	100.0

Table 2: Descriptive Statistics of Variables in PLCs

	Mean	Minimum	Maximum
Control Variables			
MKTCAP (Firm size; RMbillion)	5.4	1.0	43.3
ROE (Return on Equity %)	0.1	-0.3	1.2
PROFIT (Profit Margin)	17.0	-144.1	130.6
CSP Dimensions			
E (Environment)	9.5	0	171
C (Community)	13.7	0	85
MP (Market Place)	8.9	0	75
WP (Work Place)	27.8	0	211
CSP Index	71.1	0	362
IISH (%)	16.9	0	65

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Table 3: A Summary of CSP Disclosures in the Annual Reports.

THEME	Average Sentence counts	EVIDENCE 1 = Narrative 2 = Quantitative 3 = Monetary (in %)	LOCATION 1 = The Vision/ Strategy Section, including the Chairperson's Statement 2 = Directors' Reports/Statements Section 3 = Operations / Business Section 4 = Financial Statements Section 5 = Other remaining Sections (in %)
ENVIRONMENT	9.5	1 = 88 2 = 9 3 = 3	1 = 11 2 = 5 3 = 80.0 4 = - 5 = 4
COMMUNITY	13.7	1 = 80 2 = 10 3 = 10	1 = 11 2 = 5 3 = 77 4 = - 5 = 7
MARKETPLACE	9.0	1 = 90 2 = 9 3 = 1	1 = 3 2 = 6 3 = 87 4 = - 5 = 4
WORKPLACE	27.8	1 = 76 2 = 20 3 = 4	1 = 13 2 = 6 3 = 67 4 = - 5 = 14
Average TOTAL-CSP-SS	60.0	Average TOTAL-CSP-SS as a% of Average TOTALSS = $\frac{60}{1927} = 3.1\%$	
Average TOTALSS	1927		

Table 4 Summary of the ranking of E, C, MP, and WP by Institutional Investors

	E	C	MP	WP
The No. of Institutional Investors who ranked the dimensions as 4: (most important)	4	0	15	10
The No. of Institutional Investors who ranked the dimensions as 3	12	5	6	8
The No. of Institutional Investors who ranked the dimensions as 2	10	8	8	5
The No. of Institutional Investors who ranked the dimensions as 1 (least important)	4	16	1	7

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Table 5 CSP Index of PLCs by industry type

N	Industry type	Mean
10	Plantations	111.4
6	Construction	94.2
12	Consumer products	83.0
27	Trading services	77.1
8	Property	67.8
10	Industrial products	58.2
4	Infrastructure projects	54.8
17	Finance	34.2
94	Total	71.1

Table 6 Analysis of Variance Table for CSP Index and the Industry Groups

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	48022.4	7	6860.4	1.085	.380
Within Groups	543647.9	86	6321.5		
Total	591670.5	93			

(At a 0.05 significance level)

Table 7 CSP Index and IISH% of PLCs by industry type

N		Mean IISH %	Mean CSP Index value
27	Trading services	21.8	77.1
4	Infrastructure projects	18.8	54.8
12	Consumer products	17.5	83.0
17	Finance	15.4	34.2
8	Property	14.8	67.8
6	Construction	14.3	94.2
10	Industrial products	12.5	58.2
10	Plantations	12.0	111.4
94	Total	16.9	71.1

Table 8 shows that these IISH differences were found to be statistically not significant. ($F = 1.039$ greater than 0.05; $p = 0.410$, greater than 0.05). These showed that there was no significant difference in the IISH % in the PLCs between industries or in the PLCs.

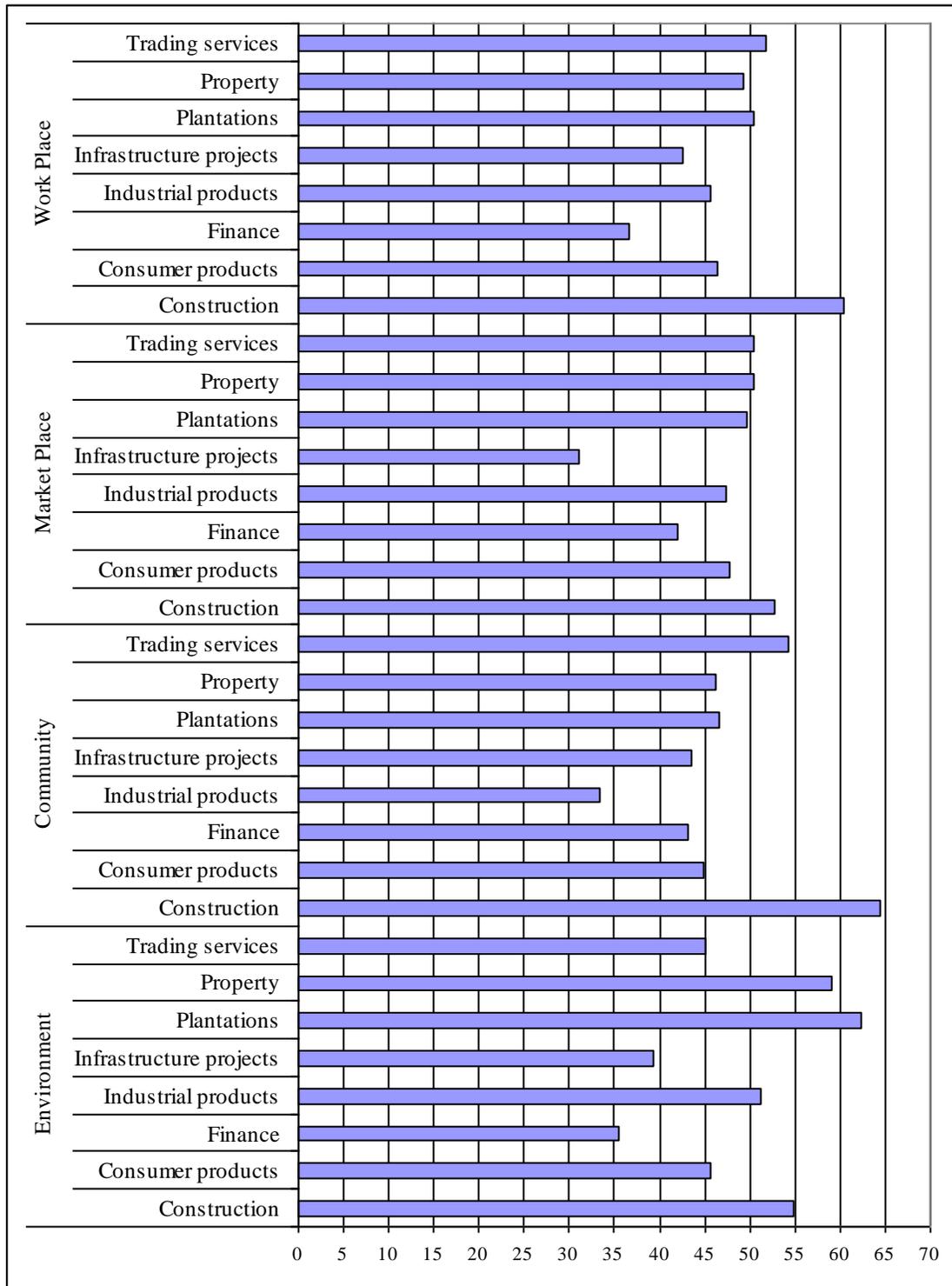
Table 8 The Analysis of Variance Table for IISH and the Industry Groups

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1204.7	7	172.1	1.039	.410
Within Groups	14243.8	86	165.6		
Total	15448.5	93			

(At a 0.05 significance level)

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Figure 3 Types of industry and mean rank on E, C, MP and WP



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The findings from the data analysis can be summarised in 2 parts:

PART A: The pattern and nature of CSP disclosures in annual reports of the PLCs; and,

PART B: The statistical analysis to assess association between CSP Index and IISH, as well as to assess if any of the dimensions were significant predictors of the CSP index or IISH.

Overall the results showed CSP at an infancy stage in the Malaysian PLCs. Institutional investors investing in these firms did not appear to be influenced significantly by CSR practices in making their investment decisions. No one dimension of CSP influenced IISH in the companies. Institutional investors seem to be investing more in large firms.

5. Comment on the Findings

The findings of this study show that whilst corporate social performance is a feature in the Malaysian business, it differs in scope, content and structure, and varies across the PLCs with no significant pattern or emphasis in practice of any of the 4 specific dimensions of CSP. There are relatively low levels of CSP disclosures by the top PLCs listed on Bursa Malaysia. On average, only 3.1% of the annual reports carried CSP disclosures and most of them were narrative in nature. 17% of the PLCs did not report any CSP initiatives at all. Workplace and environment initiatives appear to be given more emphasis by the PLCs in their CSP, than the dimensions of community or marketplace.

Though socially responsible investment (SRI) funds are in existence in Asia, (Brown et al 2004; MOE, Japan, 2003) and foreign institutional investors bring in SRI funds into the South East Asian region, (ASRIA 2005), the findings of this study do not strictly support the literature nor is the hypothesis postulated for this investigation, that there is a positive correlation between the institutional investor's shareholdings and CSP of a Malaysian business, proved. The findings show that institutional investors' shareholdings (IISH) in Malaysian PLCs have neither a positive nor negative correlation on the CSP of the firms. There is no significant relationship of any specific nature between CSP and IISH. In fact, the results show that despite the CSP index being low, institutional investors have high shareholdings in these firms. On the other hand, even when there is an increase in the CSP index of the firms, it makes no difference to the investment by the institutional shareholders.

Even though, on average, the institutional investors rank MP as the most important dimension of CSP, followed by workplace, environment, and lastly community, none of these particular dimensions of CSP are found to be significantly predict the institutional investors shareholdings (IISH) in the PLCs. Institutional investors in Malaysia seem to be investing more in large firms, than

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in 'good' firms. These findings are best discussed and analysed against a background of the Malaysian business environment as well as additional literature review.

Research question 1: What is the pattern of CSP in the top Malaysian PLCs as measured by the corporate social disclosures in the annual reports of these corporations?

There are relatively low levels of CSP disclosures by the top PLCs listed on Bursa Malaysia.

Research question 2: What is the relationship between CSP and IISH in these corporations?

There is neither a negative or positive correlation between the CSP of a PLC and its IISH. The findings do not indicate a significant relationship of any specific nature between CSP Index and IISH in Malaysian PLCs.

6. Conclusion

CSR developments in emerging economies are different from those in developed countries (Weyzig, 2006). Despite a literature review of the emerging trends in developed countries, of a positive association between corporate social performance and institutional investors' shareholdings in business, this study does not support the hypothesis that corporate social performance is positively correlated to institutional investors' shareholdings of the firm. Although not showing any particular trend or pattern, this study shows that 83 % of PLCs listed on Bursa Malaysia make corporate social performance disclosures, even though these disclosures differ in scope, content and structure across the firms. This could be because of the contextual nature of CSR as postulated by Nielsen and Thomsen (2007). The context of the conflicting interests of the firm and its stakeholders, the personal, religious and ethic values of the managers running the business and the distinct culture of the firm all have interacted to produce this diversity in the disclosures.

It is also interesting to note that institutional investors investing in Malaysian PLCs perceive marketplace initiatives to be the most important dimension of corporate social performance, and give little importance to community initiatives. Whereas, PLCs show the least corporate social performance disclosures for marketplace initiatives. Marketplace initiatives includes criteria such as consumer relations, investor education, investor relations, innovative products for market, research and development, stakeholder engagement and supplier management and this is probably seen by institutional investors as important for risk management and strategic management in their long term portfolio returns. The low ranking for the community dimension is possibly due to the institutional investors viewing the philanthropic inclined initiatives in the community dimension as incurring cost to the firm. The results of the study shows that CSR is just taking root in Malaysia.

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There are probably many intervening factors such as the domestic culture, the legal, socio-political environment, managerial values and lack of industry network that does not allow for a simple positive correlation between the “good” companies and access to capital of the SRI funds managed by institutional investors. The study also shows that the institutional investors accommodate this situation by taking a short-term view to investments in Malaysian PLCs in the conventional analysis to making an investment. Malaysia is just a toddler down the road, on the journey of corporate social responsibility.

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