CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE AND COST OF EQUITY EVIDENCE FROM PUBLIC LISTED COMPANIES IN MALAYSIA

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ABSTRACT

Corporate social responsibility (CSR) has been rolled out in recent years as it has become vital owing to the massive growth of financial institutions, mutual funds, online resources, and other publications. CSR disclosure could reduce the cost of equity. The study's main objective is to investigate the CSR disclosure by companies listed in Malaysia towards the cost of equity. This study is based on three hundred four (304) samples of Malaysian listed companies from 2013 to 2014. The data of the samples were mainly collected from annual reports, except for financial data which were collected from DataStream. The result revealed that the CSR disclosure in the annual report could reduce the company's cost of equity by reducing information asymmetry, reducing agency costs, and reducing companies' risk. The result also shows that liquidity has a significant negative relationship with the cost of equity. The higher information disclosure enhances stock market liquidity, thus, reducing the cost of equity through the reduction of risk as well increasing demand for a company's securities. The size, liquidity, and growth have a significant relationship with the cost of equity.

KEYWORD: Sustainability, Corporate social responsibility, and cost of equity

INTRODUCTION

In the wake of globalization, corporate social responsibility (CSR) has gained massive attention and awareness in research and practically. Pedersen (2006) suggests that CSR has swept the world and become one of the buzzwords of the new millennium. Corporations must leverage their CSR activities to earn greater goodwill among users and the public. Currently, corporations benefit from CSR because the shareholders prefer companies to carry out their business with a positive image in the market. Companies nowadays should not only focus on profit, they must be good corporate citizens by disclosing their CSR activities to show they are socially responsible. Shareholders put a higher expectation on companies to implement corporate social responsibility (CSR) practices, which can motivate participation in CSR activities among companies (Chapple & Moon, 2005).

In Malaysia, many companies have proactively implemented the CSR practices in their daily business, which is fully encouraged by the Security Commission (SC). For example, CIMB Group has integrated business in which everyone prospers by outreach to the community to improve their quality of life. It promotes good health, value, and unity through sports development and provide community-based learning opportunities. The outreach invested in CSR in the community, workplace, market place and environment.

Over the last few decades, CSR implementation in daily business remains uncertain. Ismail et al. (2015) suggest that this is due to less attention given to various characteristics of CSR recipients, corporation categories, participants' perception towards CSR orientation, and the type of provision extended to the community. Today, CSR has quickly grown as it is projecting good perception among companies are disclosing CSR by reflecting their norms and values. Customer and employee engagement can play a significant role in CSR, which could assist company for better development and open for new opportunities.

According to the United Nations Children's Fund (UNICEF) Malaysia, the Government of Malaysia has promoting CSR among Malaysian corporations; for instance, Bursa Malaysia instructed all public-listed companies (PLCs) and their subsidiaries to disclose their CSR practices. In addition, Malaysia Government has increased its CSR investment to promote good CSR practices. Bursa Malaysia, require all PLCs to fully disclose their CSR initiatives in their annual financial reports (Yam, 2012). On the same notion, various CSR awards have been introduced to encourage PLCs disclosing their CSR activities (Abdul Razak & Ahmad, 2014), among which the Prime Minister's Award has been launched in 2007. One of the research conducted in Malaysia, Amran et al. in 2013 suggest that CSR disclosure is still at the early stage. It concurs with a recent study by Mamun et al. (2017) who discovered that 30% of Malaysian listed companies disclosure their CSR between 1995 to 1999.

CSR practices are on the rise could have the intention to improve company’s profit and better access to equity financing. Companies with higher CSR implementations have lower equity financing costs. Disclosing CSR provides clearer corporate information to the shareholders in terms of goals, plans and activities. Subsequently, it would reduce asymmetrical information between the company and shareholders, which decreases their cost of equity. This view is supported by Suto et al. in 2017 where CSR disclosure influence favorable cost of equity as shareholders prefer CSR information in reducing information costs.

The capital market transaction hypothesis motivates the company to increase CSR disclosure (Healy at el., 2001). On the same notion, the theory also stated that the companies who disclose more information enjoy a lower cost of capital. This is due to the capital cost reduces with decrease in information risk. In other words, the companies that actively disclosing CSR activities would benefit company from lowering issuance cost of equity as the CSR disclosure reduces the company’s risk among potential investors. Subsequently, the significant increase in CSR activities can promote corporate liquidity position with better access to equity finance. On the other hand, few researchers suggest corporate CSR disclosure does not improve company’s liquidity. Some study show companies with higher liquidity might have higher motivation to give more information, while companies with lower liquidity tend to disclose limited information in their annual financial report.

There is no fixed requirement or standard regarding the CSR information listed companies should follow, although Bursa Malaysia requires listed companies to disclose CSR in the CSR statement in the company's annual report. Currently, the requirement for listed companies to disclose CSR is still on voluntary basis. CSR disclosure is an incentive for listed companies to earn a lower external financing cost by reducing information asymmetry. Hence, this has motivated this study to investigate the relationship between CSR and cost of equity in the context of Malaysian PLCs.

LITERATURE REVIEW

Stakeholder Theory

There are effects of CSR on cost of equity through customer satisfaction, as discovered by Wang et al. (2013), Clarkson (1995) and Rowley and Berman (2000). They suggest that stakeholder theory evaluates how the company manages its relationship with its stakeholders. The theory focuses on the principle of who and what are to be considered. Stakeholder theory is normative,