

# The Implementation and Reporting of Corporate Social Responsibility in Malaysian Chemical Industries

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## ABSTRACT

**Objective:** The first objective of this article is to map the CSR reporting in Malaysian chemical industries while second objective is to assess the CSR reporting in Malaysian chemical industries based on types of company, types of product and service, as well as indicators reported

**Method:** This study focused on the 626 chemical companies in Malaysia that are registered with the Federation of Malaysian Manufacturers (FMM), the Chemical Industries Council of Malaysia (CICM) and the Companies Commission of Malaysia (SSM). The annual reports of the recent year (i.e. 2014) were the primary sources. The data gathered and analyzed were the types of company, types of product and service and indicators reported their reports

**Result:** Out of 626 chemical companies, only 208 companies have disclosed their CSR initiatives and all PLCs disclosed their CSR initiatives compared to MNC, SME and Non-PLC. The chemical companies that produce multiple products and services are more likely to disclose their company reporting. There are 62 indicators were reported by 208 chemical companies in their company reporting.

**Conclusion:** The results reported in this article provide an overview of CSR reporting in Malaysian chemical industries.

**Keywords:** *corporate social responsibility, chemical industries, environment, social, economy*

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## 1. Introduction

The relationship between companies and society is inseparable and it is taken into account in the roles, rights and responsibilities of business in society (Asif et al. 2013). Corporate Social Responsibility (CSR) is about managing a company in a socially responsible manner that can be divided into internal and external social responsibility (Al-shareef and Sandhu 2014). Internal social responsibility is

associated with employee issues, investment in human capital, health and changes to the management including benefits offered in terms of training related to safety, health and environment, charity, education scheme, medical and others. In addition, internal social responsibility also includes environmental responsibility which is related to the management of natural resources, consumption and production, whereby it emphasizes the preservation and conversation of natural resources such as carrying out recycling activities, noise reduction action plans, processing water treatment and

complying with the regulations of the authorities. For external social responsibility practices, it involves the local community, various stakeholders such as suppliers, customers, local authorities, business partners and non-governmental organizations (Székely and Knirsch 2005). Developing strategies and programs on social and the environment issues allows companies to establish a close relationship with the local community (Sumiani et al. 2007).

There is an evidence of CSR implementation and awareness in Malaysia since 1980s (Teoh and Thong 1984). CSR has made headway after decades of implementation. This is due to policies and initiatives introduced by the federal government and its agencies (Sharma 2013). One of the initiatives, namely the “Silver Book” was launched in May 2005 which was a set of CSR principles and guidelines for Government-Linked Companies (GLCs) in Malaysia. The objective was to assist GLCs in incorporating CSR principles into their business agenda (Abdulrazak and Ahmad 2014). Another initiative was by Bursa Malaysia, the Malaysian Stock Exchange has made a mandatory requirement for all Public Listed Companies (PLCs) in Malaysia to disclose their CSR initiative in their annual financial reports (Dye and Sridhar 1995). From then, various CSR awards have been introduced. One of them is the Prime Minister’s CSR Award that was launched in 2007 (Abdulrazak and Ahmad 2014). A survey has been conducted and found that from July 2003 to December 2014, Malaysian firms have donated over RM 82 million through their charity activities (Prathaban and Rahim 2005). Chemical industries are of the major contributors to Malaysian’s Gross Domestic Product (GDP). However, not all chemical companies have performed their CSR reporting to the public just yet. Hence in this paper, we will map and assess the CSR reporting in Malaysian chemical industries based on types of company, types of product and service, as well as indicators reported to provide an overview of CSR reporting in Malaysian chemical industries.

## 2. Materials and Method

This study focused on the 626 chemical companies in Malaysia that are registered with the Federation of Malaysian Manufacturers (FMM), the Chemical Industries Council of Malaysia (CICM) and the Companies Commission of Malaysia (SSM). Annual reports and/or any reports from each chemical company that are related to CSR activities were collected and reviewed. The annual reports of the recent year (i.e. 2014) were the primary sources. The data gathered and analyzed were the types of company, types of product and service and indicators reported their reports. First, the companies were categorized as Public Listed

Companies (PLCs), Multi-National Companies (MNCs), Small and Medium Enterprises (SMEs) and Non-PLCs/SMEs, to correlate the types of company with CSR reporting. Second, the companies were categorized based on the types of product and service. And finally, the indicators reported in each chemical company report were compiled to analyze the disclosure of their CSR reporting.

## 3. Results and Discussion

### 3.1. Types of company

Figure 1 shows the types of Malaysian chemical company that are registered with the Federation of Malaysian Manufacturers (FMM), the Chemical Industries Council of Malaysia (CICM) and the Companies Commission of Malaysia (SSM). Out of 626 chemical companies, only 208 companies have disclosed their CSR initiatives. All PLCs disclosed their CSR initiatives because Bursa Malaysia has set a mandatory requirement for all PLCs in Malaysia to disclose their CSR initiatives in their annual financial reports (Yam 2012). Other types of chemical company, such as MNC, SME and Non-PLC/SME have lower percentage of CSR initiatives disclosure because they are not obliged to disclose it. Based on the study conducted by Teoh and Thong (1984), it revealed that foreign-owned companies made more CSR disclosures than local Malaysian companies do. For the foreign-owned PLCs and MNCs, the demands for CSR disclosure are higher due to the separation between management and owners that hold a high proportion of shares in a company (Prathaban and Rahim 2015; Schipper 1981). Furthermore, foreign investors are likely to have different ideas and knowledge that lead to the company to disclose more information including social and environmental information that help in decision making (Khan et al. 2013). Based on Hanifa and Cooke study (2005), they found that there is a positive relationship between foreign ownership and CSR disclosure in Malaysia whereby Malaysian companies use CSR disclosure as a strategy to please the investors in achieving inflows of capital.

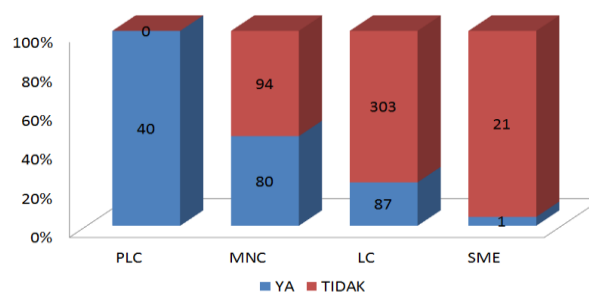


Figure 1: Types of Company.

### 3.2. Types of Product and Service vs Type of Company

Figure 2 shows the number of companies that have disclosed their CSR initiatives based on types of company as well as types of product and service. In Malaysia, there are a lot of chemical companies are providing multiple products and services. According to Dye and Sridhar (1995), companies tend to provide information that is in line with the peculiarities of their industries. For example, manufacturing industries tend to disclose more information about employees compared to the companies in extractive and chemical industries which they are likely to disclose more on environmental information based on their activities. Some of the chemical industries which did not disclose their CSR activities may think that their activities are not much affecting environment and social development.

### 3.3. Report Indicators

A total of 62 indicators were reported by 208 chemical companies in Malaysia, which were categorized into social, environment and economic aspects. The list of the reported indicators is shown in Table 1.

#### 3.3.1. Social

Community engagement (1.1) is one of the important indicators that falls under social aspect which is to improve the quality of life of the community and to enhance the relationship between the company and community. Under community engagement, there are two related indicators which are no of volunteers and type of volunteer programs. Management policy and employee rights (1.2) are to recognize and respect new or evolving ethical moral norms adopted by society and to perform in a manner consistent with expectations of societal mores and ethical norms. Initiatives for management policy are no child labor, no forced labor, policy of code of conduct, policy on HIV/AIDS and whistle blowing policy. Whereas for employees right are measurement, feedback and action on employee, employee rewards and recognition, diversity based on gender, age and region, employee benefits, number of employees, employee training, privacy and equal opportunity, wellness programs for employees and their families, transparency and respect human right. The indicators for safety and health (1.3) are number of fatalities, employees' lost-time incident, mitigation and prevention action for accident and safety and health hazard recognition and risk assessment. These indicators are law-abiding in corporate citizen. Whereas indicators that falls under law is labor law. The indicators falls under stakeholders engagement (1.4) are shareholder info, corporate info and engage all the stakeholders in the company, which are meant to gather all the information and idea from the stakeholders.

#### 3.3.2. Environmental

Environmental programs (2.1) that have been conducted by chemical industries are green building, program to reduce greenhouse gases, environmental conservation effort, implementing and maintaining pollution, biodiversity initiatives and animal welfare. These initiatives are to provide environmental awareness to the employees and community. Reporting and management plan (2.2) are to recognize corporate integrity and ethical behavior go beyond mere compliance with laws and regulations. They report incident and potential hazard, industrial hygiene, crisis management plan and product stewardship. There are four parts for (2.3), indicators that fall under environmental policy and compliance are climate change risk assessment, life cycle assessment optimizing environmental policy, environmental compliance and policy substance misuse. The indicators for waste management are total hazardous waste production and total non-hazardous waste. Indicators for water quality are total water consumption, total treated water discharged, total fresh water used, volatile organic carbon, total phosphorus in waste water and total nitrogen in waste water. For air quality, the indicators are total CO<sub>2</sub> emission and total nitrogen emission. These indicators are to give positive images to the government and to showcase as one successful firm that fulfils its legal obligations and to avoid environmental fines. There are two parts in (2.4) which are resource efficiency and recycle activities. The indicators reported for resource efficiency are total water consumption, total energy used and type of renewable energy used. Whereas, Indicators reported for recycle activities are water recycling and waste recycling, which these indicators is to maintain high level of operating efficiency.

#### 3.3.3. Economy

The objective of charitable contributions (3.1) is to give positive impact to community. The indicators are reported based on the amount of donation and the type of donation. Indicators that fall under employee benefits (3.2) are employee salaries and bonuses, which these indicators are to prevent ethical norms from being compromised in order to achieve corporate goals. Indicators reported for products (3.3) are product and service labeling, which is to provide goods and services that at least meet minimal legal requirement. Lastly, financial performance (3.4) reported revenue and property and assets, which is to commit to being as profitable as possible, to perform a consistent manner with maximizing earning per share and to maintain strong competitive position.

All the indicators mentioned above are able to improve the quality of stakeholder-company relationship. According to Sen et al. (2006), stakeholders may respond to CSR based on company favoring behaviors. Individuals who aware the

company is participating in CSR initiatives are intended not only purchasing the company's products but also applying for employment at the company and investing in company stock. There is evidence that investors will purchase stock in companies that reflect their personal values (Sparkes and Cowton 2004). Stakeholders that participate in CSR of a company will be satisfied because the company has provided adequate value in relation to the resources that they have given over the course of the relationship. Those stakeholders that received benefits from the company also wish to reciprocate in kind and desire to maintain the relationship with the company in the future (Bhattacharya et al. 2009). In addition, stakeholders will identify those companies that have feeling of trust, commitment or satisfaction and will support the companies' objectives.

#### 3.3.4. Stakeholder's engagement

The relation of company and stakeholders are very important to drive CSR towards sustainability. Taking the definition by Howard Bowen and Johnson (1953); Mawhinney (2008) that CSR is not only to increase profit but it also may impact on society while sustainable development is a strategy where society get a development in terms of economic, which also beneficial to the environment and quality of life. Comparing both definitions, they share the same objective which is to enhance economic growth, protect environmental and to improve community's quality life. Both definitions highlighted the importance of stakeholders.

Table 2 shows the list of stakeholders compiled from each report. Stakeholders can be divided into two categories which are primary and secondary stakeholders (Isa 2012). The primary stakeholders are those that have direct relationship with a company in realizing the mission of making a product or service for customers. While the secondary stakeholders include the social and political actors who support the mission of the company by certain reasons and gave approval to the activities (Haniffa and Cooke 2005). These parties are the local community, government and non-governmental organizations (NGOs) (Park et al. 2014). Development and implementation of responsible governance can be considered as a change of organizational processes towards the future as new ways of managing a company. It is to align the organization with the dynamic demand business and social environment by identifying and managing stakeholders (Gordon et al. 2012). Besides taking into account of environmental issues, the relationship between the stakeholders is also important in a company, especially for carrying out cooperation when crisis occurs in a company. Therefore, governance must take steps to create positive interactions, relationships and continuous communication with stakeholders to build confidence and social learning (Zhao et al. 2012).

According to Mitchell et al. (1997), stakeholders can be grouped using three main attributes which are power, legitimacy and urgency. Generally, a company pay more attention to those stakeholders with a higher level of these attributes (Zhao et al. 2012). These attributes will change over the time depending on the structure of the company. Dahl (1957) defined power as a "relationship among social actors in which one social actor, A, can get another social actor, B, to do something that B would not otherwise have done". On the other hand, Suchman (1995) described legitimacy as a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, value, beliefs and definitions. For the third attribute, Merriam-Webster Dictionary defined urgency as "calling for immediate attention of pressing" (Zhao et al. 2012). Based on the definitions, we assume that "power" can refer to government, "legitimacy" may refer to shareholders and "urgency" may refer to community and environment. These three attributes will help to understand which stakeholders do really count in a company (Mitchell et al. 1997).

## 5. Conclusion

In regard to the CSR reporting in Malaysian chemical industries, PLCs have 100% of companies that disclosed their activities. This is because PLCs are enforced to disclose their CSR activities in annual report. The Multiple Product and Service category has the highest percentage of CSR disclosure regardless PLC, MNC, SME and Non-PLC/SME. There were 62 indicators reported by 208 chemical companies in Malaysia and 17 stakeholders were classified into primary and secondary stakeholders whereby there were 6 for primary and 11 for secondary stakeholders. This study serves as an overview of CSR reporting in Malaysian chemical industries. To strengthen the finding of this study, some further study for fact finding should be conducted. First, surveys should be conducted among the chemical companies to find out their respective CSR initiatives. Second, interviews should be conducted to find out the obstacles to disclose their CSR activities. However, this study is also subject to some limitations whereby this study is only based on annual or sustainability reports of a single year which is 2014 or the latest reports that are available.

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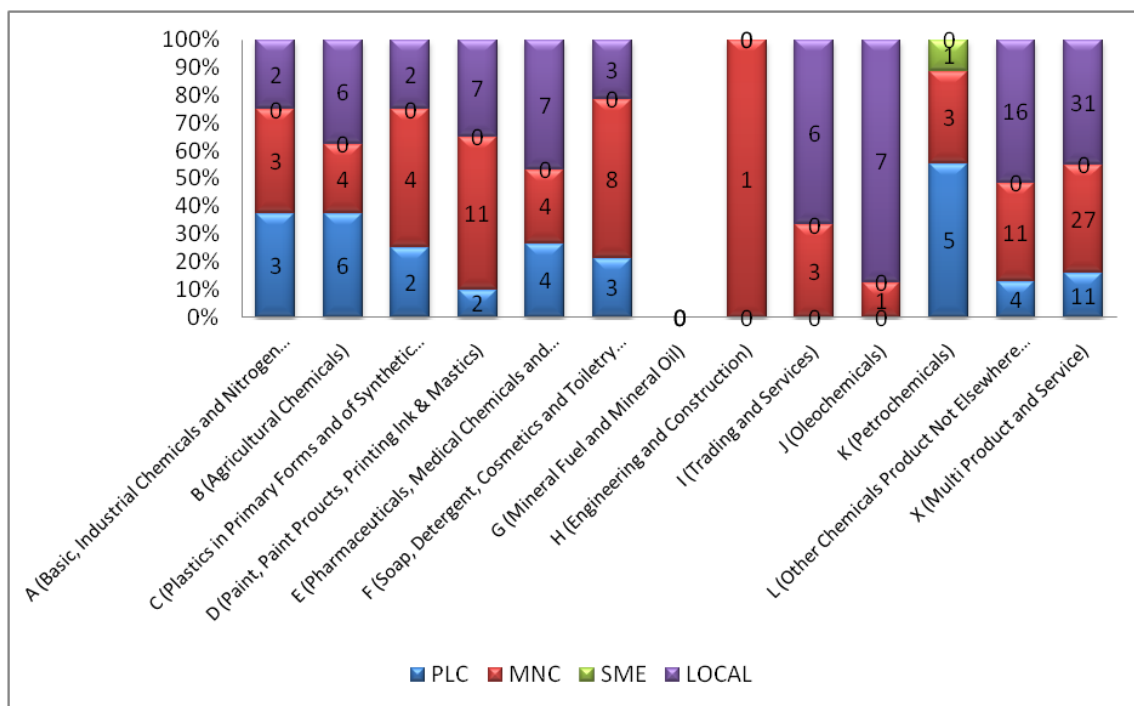
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**Table 1:** Indicators Reported by Malaysian Chemical Companies.

SOCIAL	ENVIRONMENT	ECONOMY
<p><b>1.1 Community engagement</b>                      Type of community programs                      No of community programs                      No of volunteers for community programs</p> <p><b>1.2 Management policy and employee rights</b></p> <p><b>a) Management Policy</b>                      No child labour                      No forced labour                      Policy of code of conduct                      No gift policy                      Policy on HIV/AIDS                      Whistle blowing policy</p> <p><b>b) Employee rights</b>                      Measurement, feedback and action on employee                      Employee training                      Privacy equal and opportunities                      Diversity (gender, age, region)                      No of employees                      Respect human right                      Wellness programs for employee and their families                      Transparency</p> <p><b>1.3 Safety and health</b></p> <p><b>a) Safety and health</b>                      No of fatalities                      Employees' lost-time incident                      Safety and health hazard recognition and risk assessment                      Mitigation and prevention action</p> <p><b>b) Law</b>                      Labour law</p> <p><b>1.4 Stakeholders engagement</b>                      Shareholder info                      Corporate info                      Engage all the stakeholders in the company</p>	<p><b>2.1 Environmental programs</b>                      Green building                      Program to reduce greenhouse gases                      Environmental conservation effort</p> <p>Implementing and maintaining environmental sustainability                      Biodiversity initiatives                      Animal welfare</p> <p><b>2.2 Reporting and management plan</b>                      Reporting in incident and potential hazard                      Industrial hygiene                      Crisis management plan                      Implementing and pollution control                      Product stewardship</p> <p><b>2.3 Environmental policy and compliance</b></p> <p><b>a) Environmental policy and compliance</b>                      Climate change risk assessment                      Life cycle assessment optimizing environmental policy                      Environmental compliance and Policy substance misuse</p> <p><b>b) Waste management</b>                      Total hazardous waste production and Total non-hazardous waste</p> <p><b>c) Water quality</b>                      Total water consumption                      Total fresh water used and treated water discharged                      Total organic carbon and Volatile organic carbon                      Total phosphorus and nitrogen in waste water</p> <p><b>d) Air quality</b>                      Total CO<sub>2</sub> emission and Nitrogen emission</p> <p><b>2.4 Resource efficiency and recycle activities</b></p> <p><b>a) Resource efficiency</b>                      Total water consumption and energy used                      Type of renewable energy used</p> <p><b>b) Recycle activities</b>                      Water and waste recycling</p>	<p><b>3.1 Charitable contributions</b>                      Amount of donation                      Type of donation</p> <p><b>3.2 Employee benefits</b>                      Employee salaries and bonuses                      Products and service labelling</p> <p><b>3.4 Financial performance</b>                      Revenue                      Property and assets</p>

**Table 2:** List of Stakeholders.

PRIMARY	SECONDARY
i. Employee	i. NGOs
ii. Consumer	ii. Government
iii. Retail customers	iii. Academia
iv. Supplier	iv. Journalist
v. Shareholders	v. Scientific organizations
vi. Investors	a. Universities and institutes
vii. Debt holders	vi. Industry association
a. Stockholders	vii. Consortia
viii. Contractors	viii. Labor association
	ix. Non-profit organization
	x. Regulator
	xi. Standardization bodies
	xii. Rating organizations
	xiii. Sustainability organizations
	xiv. Media
	xv. Politicians
	xvi. Intergovernmental organizations
	xvii. Community
	xviii. Public
	a. - Neighbor and local resident



**Figure 2:** Types of Product and Services vs Type of Company.