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The Determinants of Voluntary CSR Disclosure of Thai Listed Firms

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Abstract. This study investigates factors that determine the corporate social responsibility disclosure information for a large sample of Thai listed firms. The evidence in this paper suggests that corporate governance and corporate social responsibility are complementary. Companies that have a well-established corporate governance program in place would also take good care of most corporate social responsibility disclosure issues. This suggests that corporate governance is a rudimentary component for transparent disclosures.

Keywords: Corporate Social Responsibility; Voluntary Disclosure; Corporate Governance Rating.

1. Introduction

Corporate social responsibility (CSR) is a business philosophy in terms of social investing aimed to build up social capital and to improve the economic performance of the firm (Waddock (2001) and Habish et al. (2001)). During the recent years, there have been increases in CSR media campaign exposures and disclosure activities. Publicly traded companies have spent a great deal of effort and money on disclosing information on their social and environmental performance. Not only for practitioners to recognize the importance of CSR disclosure, has there have also been the subject of studies among considerable academic research why firm voluntarily disclose their CSR information. CSR disclosure studies have been widely studied in context of developed countries (Gray et al., 1995; Belal and Owen, 2007; Islam and Deegan, 2008; Gamerschlag et al., 2011). Few researchers have discussed the determinants of CSR disclosure and reporting in developing countries in general and in Thailand in particular.

This paper contributes to a further understanding of the variation in companies' CSR disclosures in many aspects. First, we provide evidence of CSR disclosures in Thailand, which is an interesting setting as companies are not required to disclose CSR information. Therefore, the provision of CSR information is voluntary. Second, earlier studies have regularly not considered all aspects of CSR, but have focused on main CSR activities, either environmental or social disclosures. Furthermore, this study expands the scope of CSR disclosures and analyses whether corporate governance ratings and characteristics are potential determinants of CSR disclosure practices by Thai listed firms[1].

The rest of paper is organized as follows. Section 2 reviews the related literatures and proposes hypotheses being tested. Section 3 discusses the data and sample design. Section 4 presents the empirical results and section 5 concludes.

2. Literature Reviews

2.1. Determinants of CSR disclosures

The socio-political theory proposes that firms are concerned with political and non-governmental interest groups they are engaged, including preventing implicit or explicit taxes, or other regulatory actions (Healy and Palepu 2001; Watts and Zimmermann 1978). Companies can employ a number of methods to reduce the likelihood of adverse political or societal actions and the resulting costs (Watts and Zimmermann 1978). One

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[1] The Global Reporting Initiative (GRI) is a non-profit organization that promotes economic sustainability. It produces one of the world's most prevalent standards for sustainability reporting, environmental social governance (ESG) reporting. The vision of the GRI is "A sustainable global economy where organizations manage their environmental, social and governance impacts responsibly, and report transparently". This assumes that the sustainability reporting contributes to more sustainable practices.

of them is to disclose CSR information, as this allows the firm to produce moral capital that can temper punitive sanctions in the case of a negative event (Blacconiere and Patten 1994; Godfrey 2005). Empirical evidence appears to confirm this outset. Lyon and Maxwell (2007) find that firms with poor reputations will disclose more, while firms with outstanding reputations have a tendency to disclose less as they gain little by disclosing successes since they are expected to succeed.

Agency theory proposed by Jensen and Meckling (1976) concerns the difficulties in motivating one party, the agent, to act on behalf of another, the principal. Common examples of this relationship include the management (agent) and shareholders (principal). The two parties have different interests and asymmetric information, where the agent having more information, such that the principal cannot directly confirm that the agents are always acting in principals' best interests, particularly when activities that are useful to the principal are costly to the agent, and where elements of what the agent does are costly for the principal to observe. Moral hazard and conflict of interest may arise. Therefore, by disclosing information, the management can reduce the asymmetric information and, hence, agency costs.

A number of factors have been derived by agency theoretical framework e.g. ownership structure, using of leverage and overall quality of corporate governance can be used to explain the variations of content in voluntary disclosures. CSR and Corporate Governance (CG) are two mechanisms for firms to regulate their operation. Both concepts are relevant areas of research which somewhat overlap in trying to answer the questions of how and what businesses do and should do. Therefore, a positive relationship between CG rating and CSR disclosure variable is expected. Moreover, ownership structure is also important governance mechanism to play a critical role in firms' disclosure of social responsibility information. To be specific, firms under mandatory disclosure requirements such as government or state enterprise owned companies should provide more social responsibility information than privately owned firms (Wang et al. (2012)). More dispersed ownership structure can imply more chances of opportunistic managerial behavior and conflicts of interest between principal and agents. This will result in high level of disclosures to reduce the agency problem and information asymmetries (Reverte (2009)).

High leverage increases the agency costs, because debt suppliers can protect their interests by various types of contracts and agreements by providing more information, management can decrease the agency costs and the uncertainty for the creditors and investors. (Jensen and Meckling, 1976). Previous research shows that corporations with high leverage have a tendency to provide more information than the corporations with low leverage (Broberg et al., 2010).

There are also other variables that are found to be important determinants of the CSR disclosure level such as profitability, firm size, industry the firm is belong to, and firm age (Gamerschlag et al. (2011)). Profitable firms are more exposed to political pressure and public scrutiny, therefore they use more self-regulating mechanism through disclosing more, in order to avoid regulations Also, Management in profitable firms discloses more in order to support their own position and compensation (Giner, 1997 cited in Reverte, 2009). On the empirical side, some studies found this relationship positive while others found either negative relation or no significant relation (Cowen et al., 1987; Patten, 1991) between profitability and disclosure. However, more obvious stance is that there exists a positive relation.

The extent of CSR disclosures is being explained by the variable firm size in number of studies (Cowen et al., 1987; Patten, 1991; Gray et al., 1995). A lot of studies have found that positive relationship exists between firm size and extent of CSR disclosures. Patten (1991) used firm size as a proxy variable to measure public pressure. Since large corporations undertake more activities and have more impact on society, so they receive more attention from general public, thus, have high number of disclosures. However, not all CSR disclosure studies supported this size-disclosure relationship e.g. Ratanajongkol et al. (2006) found no significant relationship between size and disclosure.

Patten (1991) also proposes that industry classification can be used as a proxy variable to measure public pressure. The results from these studies show that industries having negative impact on the environment, disclose more information as compare to other corporations. Finally, Age could actually help firms become more efficient. Over time, firms discover what they are good at and learn how to do things better (Arrow, 1962; Jovanovic, 1982; Ericson and Pakes, 1995). Therefore, firm age may explain the variations of content in voluntary disclosures. Therefore, a positive relationship between CSR disclosure and firm age is expected.

2.2. CSR Disclosure in Thailand

In Thailand, both the Securities and Exchange Commission (SEC) and the Stock Exchange of Thailand (SET) closely monitor publicly-listed companies and have annual awards for outstanding performance on corporate governance and CSR. The SET has contributed to CSR disclosure by having a number of CSR related initiatives over the past few years. The SET try to make a significant difference to constituent companies being more transparent on environmental, social and governance (ESG). In late 2006, the SEC appointed the CSR Working Group to establish guidelines and encourage listed companies to increase the awareness of society and environment. In 2008, the CSR Working Group introduced the CSR Guidelines, which provide principles and best practices for listed companies' implementation.

The issue of CSR disclosure research in Thailand context starts out by Kuasirikun and Sherer (2004) which highlights the scarcity of CSR research by documenting their views and practice of CSR disclosure for selected companies in Thailand. The annual reports selected for this purpose are those of Thai companies for the years 1993 and 1999. The overall observation, the annual reports analyzed provides an account of company financial performance with little emphasis on corporate social and environmental achievement. The social and environmental disclosures have been contextualized and evaluated against the backdrop of the severe social and environmental problems facing Thailand during this period. Ratanajongkol et al. (2006) also explore the issue of corporate social disclosure among Thai companies between 1997 and 2001. The investigation employs longitudinal content analysis to demonstrate developments as well as absolute CSR levels among large Thai companies. They discover that CSR disclosure changes from one year to another are likely to be trivial, but that changes over a five-year period are more likely to reveal exciting insights. However, the research data show diverse trends in different industries. The theme of human resources dominated Thai company disclosure. The paper also suggests that legitimacy theory, political economy theory and the recession of 1998 all contribute to an understanding of the factors impacting on Thai CSR.

Although these studies investigate the issue of CSR in Thailand, these papers focus on descriptive issues of various dimension of CSR disclosure. They do not address the issue of what factors determine the CSR disclosure and why the disclosures of social responsibility of Thai firms varied.

3. Data and Methodology

This study focus on the voluntary disclosed information among large 50 listed companies in the SET. The CSR disclosure information is collected from the annual report because not all companies have sustainability report or websites with CSR section. The CSR components follow the CSR guidelines by the SEC in various aspects: Organizational governance, human rights, labour practices, environment, fair operating practices, consumer issues, and community involvement and development. Other company information is acquired from SETSMART. To investigate the determinants of disclosure quality among Thai listed firm, the ordinary least square estimation is applied on the following models:

$$\begin{aligned}\text{CSRDisc} = {} & \beta_0 + \beta_1\,[\text{PERFORMANCE}] + \beta_2\,[\text{CGR}] + \beta_3\,[\text{OWNERSHIP}] + \beta_4\,[\text{FREEFLOAT}] + \\ & \beta_5\,[\text{FINANCE}] + \beta_6\,[\text{INDUS}] + \beta_7\,[\text{PROPERTY}] + \beta_8\,[\text{RESOURCE}] + \beta_9\,[\text{TECH}] + \beta_{10}\,[\text{SERVICE}] + \beta_{11} \\ & [\text{MKCAP}] + \beta_{12}\,[\text{LEVERAGE}] + \beta_{13}\,[\text{AGE}] + \varepsilon\end{aligned}$$

The dependent variable is CSR disclosure index (CSRDisc). Firm characteristics that might also affect CSRDisc are financial performance of the firms. In this study, we use three proxies for financial performance, namely return on asset (ROA), return on Equity (ROE), and Tobin's Q ratio (TOBIN'S Q). CGR is the corporate governance rating is initiated by the SEC and the SET in conjunction with Institute of Directors (IOD) as a rating agency. There are six level of rating depending on the score range starting from excellent, very good, good, satisfactory, pass, and no rating. Therefore, CGR variable is range from zero to five. Variable indicating public ownership (OWNERSHIP) is introduced. It is a dummy variable equal to 1 if firms in the sample have government or state enterprise own more than 50% of the shares. FREEFLOAT is a variable measuring the ownership dispersion. This variable is defined as percentage of a firm's outstanding shares that are not held by shareholders holding at least 5% of the firm's shares. A set of control variables are also presented to control the firm's characteristics that may affect the disclosure quality. Industry is dummy variable indicating industry the firm belongs to. MKCAP is the logarithm of the firm's market capitalization to control for size differences across the sample firms. LEVERAGE is a measure of the firm's financial leverage. It is the ratio of total debt divided by the book value of assets. Lastly, AGE, a proxy for firm's reputation, is defined as number of years since the company has been publicly traded firm.

4. Results and Discussions

Table 1 presents the relationship between the CSR disclosure and corporate governance rating and other variables.

Table 1 Regression analysis: The determinants of CSR Disclosure

Variables	**Result**		
	Model 1	**Model 2**	**Model 3**
Intercept	0.2348	0.2142	0.0820
ROA	0.0570		
ROE		-0.0506	
Tobin's q			0.0041
CGR	0.0735***	0.0746***	0.0748***
Ownership	0.1052**	0.0966*	0.0764
Freefloat	0.2686**	0.2884**	0.2481**
Finance	-0.0959	-0.1067	-0.1110
Indus	0.1208	0.1242*	0.1075
Property	0.0246	0.0295	0.0246
Resource	-0.0085	-0.0126	-0.0212
Tech	0.0822	0.0863	0.0722
Service	-0.1074**	-0.1030**	-0.1037*
Log(mkcap)	-0.0043	-0.0015	
Log(asset)			0.0117
Leverage	-0.0147*	-0.0151*	-0.0161*
Age	0.0018	0.0015	0.0012
R^2	0.6711	0.6711	0.6729
Adjusted R^2	0.5375	0.5375	0.5399
F-statistic	5.0225***	5.0231***	5.0627***

Note: *, **, *** denote significant at 10%, 5%, and 1% levels, respectively.

The results show that corporate governance rating is significantly positive related to CSR disclosure. This implies that corporate governance quality and CSR disclosure are complementary. Also, companies whose government or state enterprise ownership own more than 50% of the shares have a better CSR disclosure level. This result is consistent with Wang et al. (2012) that government plays a critical role in firms' disclosure of social responsibility information. In addition, compared with voluntary disclosure firms, those under mandatory disclosure requirements such as government or state enterprise owned companies do provide more social responsibility information. Also, there is a positive and significant relationship between CSR disclosure and firms that have dispersed ownership structure. More dispersed ownership structure can imply more chances of opportunistic managerial behavior and conflicts of interest between principal and agents. This will result in high level of disclosures to reduce the agency problem and information asymmetries. Moreover, firms with high level of financial leverage have low level of CSR disclosures. This finding is consistent with Uwuigbe and Egbide (2012) that firms with high debt profile and a higher risk of insolvency would be unwilling to devote extra cost on corporate environmental issues. However, there is no significant relationship between CSR disclosure and corporate performance, either accounting- or market-based measure and firm age.

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