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

Mohd Waliuddin Mohd Razali*[1&2], Tracia Sim[1], Damien Lee Iung Yau[1], Fatin Nur Hidayah Taib Khan[1], and Shazali Shaharuddin[3]

[1]Faculty Economics & Business, Universiti Malaysia Sarawak (UNIMAS), Malaysia
[2]Faculty of Economics & Management, Universiti Kebangsaan Malaysia (UKM), Malaysia
[3]Univeristi Teknologi Mara, Melaka Branch, Malaysia

*Corresponding author email: walirazali@yahoo.com

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, as it studies how managers should deal with different stakeholders regarding CSR practices and motivation. Companies can strengthen stakeholders' relationship by disclosing CSR practices (Prieto-Carrom et al., 2006). Stakeholder theory suggests manager play the operating role in running the companies with primary practice to create trade value (Laplume, Sonpars & Litz, 2008). This theory can be viewed from three perspectives, namely descriptive, instrumental, and normative. One of the theory applications is to interpret the concept that correspond to reality under descriptive perspective; while, under the instrumental perspective, the theory applies to the scenario of the relationship between the stakeholder management and company's performance. The normative perspective on the other hand explains how shareholders behave and their motivation of their actions and movements pertains to CSR activities.

Social and environmental management concerned the stakeholders. Stakeholder theory suggests companies' social and environmental issues disclosed through CSR in the annual report provide opportunities for the company to provide needed information to the stakeholders. Further, Clarkson (1995)~~,~~ suggests stakeholders' theory viewed a company can be a set of mutual relationship among various stakeholders, including shareholders, consumers, suppliers, legislator, non-governmental organization and others.

Agency cost theory

The agency cost theory can be defined as the link between the agent (managers) and the principal (shareholders) with the existence of the information asymmetry. Jensen and Meckling (1979) further elaborated that the agent does not act in the best interest of the shareholder On the other hand, the agent (managers) carried out some services representing the principal by delegating some decision-making authority to the agent. In this principal-agent relationship, the agents are responsible for making things to make choices in the best interest of shareholders. They must also fully practice their responsibility to maximize the shareholders' wealth. This agency theory considers that people are rational in the market. The market players include managers, shareholders, governments, experts and others who tend to thoroughly think wisely regarding economic choices as the decision-making would contribute to their welfare. Thus, managers are encouraged to be involved in opportunistic behaviour, which can increase the agency cost of a particular company.

El Ghoul et al. (2013) stated that information asymmetry tends to have a higher level of perceived risk as the risk borne cannot be diversified. Based on this situation, the researcher found that shareholders need to give out their money on externals cost; for instance, monitoring costs will be the high agency cost of the company, which can compensate for a slightly higher required return (Lombardo & Pagano, 2002). The information asymmetry of CSR practice companies is lessening, and the cost of equity is thus lowered due to the companies with good CSR ratings having higher voluntary environmental and social disclosure (Dhaliwal et al., 2011). In addition, voluntary disclosure is an example of an important mechanism to mitigate agency costs affected by the advancement of asymmetry information between anxious individuals and groups. The investors easily monitor managers through bonding activities as they disclose the information. The managers involved must try to persuade shareholders by acting optimally and disclosing information to achieve a better reputation.

Furthermore, companies concerned about implementing social responsibility gain more flexibility and compliance with financial resources (Eccles et al., 2012). It also leads the companies to gain wealth by practising proper social responsibility disclosure. Besides, the company's market value is expanding, consequently influencing the price of shares. This situation relies on the lowered agency cost and asymmetry of information. One effective way to reduce the information asymmetry encountered by managers and shareholders is by disclosing the CSR practice done by the particular company (Schadewitz & Niskala, 2010). This is because the managers are the person who being in-charge in charge of the company; meanwhile, the shareholders are the person who becomes the outsiders of the company. Thus, the managers know a lot of information that the shareholders need to learn. In this situation, the CSR disclosure, which can disclose much information regarding the companies' CSR practice, can affect the shareholder's decision-making regarding their investment.

Legitimacy theory

Legitimacy theory is defined as the “comprehensive view or assumption that the engagements of a body are desirable, appropriate, or applicable within some norms, values, beliefs, and definitions that publicly created” (Suchman, 1995). Ahmad & Sulaiman (2004) stated that legitimacy theory could contribute a better understanding of the environment disclosure made by companies. Companies disclose voluntary information to get support from society and the general public which can interpret the image of being socially and environmentally responsible companies. On the other hand, legitimacy theory is the study based on the concept of an implied social contract between the social institution and society.

Legitimacy theory implies whether companies are willing to portray positive rather than negative information about specific company (Gray et al., 1996). Managing its stakeholders' perception is the main objective of the enterprise to legitimize company's behaviour; therefore, companies have to deliver CSR information to the public and perform according to legitimacy theory. In order to increase society's awareness affecting the cost of equity in Malaysia, legitimacy theory proposes that the company take proper steps to ensure their CSR activities are adequate and acceptable among society. The company must fully disclose the information through annual reports in such a way as to gain a better reputation as they are being socially responsible to society.

Capital Market Transaction Hypothesis

Outsider investors' perception of the company is crucial for corporate managers to finance leverage or issue extra equity (Healy & Palepu, 1993). The hired manager of the particular company has much more precise information regarding the company's prospects than the outsider investors. This is because the corporate manager has the expertise in managing the investment of the companies as well as the operational strategies involved. Myers and Majluf (1984) stated that the information asymmetry problem causes higher external financing as it cannot be resolved between the relationship between managers and outsider investors. In order to reduce the asymmetry information problems, the managers used the disclosure strategy by making market capital transactions which can lower the cost of equity. In other words, the increase in CSR disclosures enables the investors to give a clear picture of the manager's business strategies.

If there is a gap between managers and the investors for bearing information risk, the expected to require rates of return requested are slightly higher by the investors (Barry & Brown, 1985, 1986; Merton, 1987). In order to help managers to enjoy a lower cost of equity, CSR disclosure in the annual report is much higher, which can lower the information risk. Through this disclosure, there are no physical transaction costs to be increased; however, it gives rise to the transmission of wealth among investors. The CSR behaviours and the information disclosure regarding those behaviours able to influence the capital market process directly influenced the company's cash flow. Investors will use the discount rate to value the stream of the particular company's cash flow, which means that the value of cash flow will be lesser as the discount rate can be used to determine the riskiness level of a particular company (Richardson et al., 2000). Halvarsson et al. (2015) stated that the company's valuation is determined by the cost of capital, as the cost of capital discounts future cash flow, leading to a lower current company value.

Cost of Equity

Wang et al. (2013) state that the cost of equity is understood as the discount rate that the market implements to the company's expected future cash flows to enter and match a current stock price; however, it is not directly observable. Generally, two approaches are being used to estimate the cost of equity. Average realized return is the first approach in determining the cost of equity. This approach is based on the assumption that when averaged exceed large samples; the realized returns might not be reliable for determining the cost of equity over a longer period. Furthermore, the return that is, on average lower than the risk-free rate for a certain period of time, usually more than 10 years, shows a weak realized return proxy for the expected return (Elton, 1999). This approach also needs to meet more success based on the previous research reviewed. For example, failure to provide convincing proof and evidence of the association between realized return and beta of the market (Fama & French, 1992).

The residual income valuation model is the second approach used for the cost of equity. It analyses the current market prices and the earning forecast to predict the cost of equity (Hamid, 2004). In the study, we estimate the cost of equity using the PEG method (Easton, 2004), which assumes that the stock price consists of one-year ahead forecast earnings per share (EPS) and two-year ahead forecast earnings per share. The PEG method (Easton, 2004) assumes that no dividend payment will be calculated, as explained in the study done by El Ghoul et al. (2011).

CSR Disclosure and Cost of Equity

The Commission of European Communities defined CSR as "a concept whereby companies voluntarily integrate social and environmental concerns in their business operations and their interaction with their stakeholders" (Wang, 2013). Besides, Mohd Ghazali (2007) and Ahmad et al. (2003) stated that CSR is a social event that interdependent stakeholders through the company's annual reports. All the CSR practices are disclosed in each of the companies' annual report to enable stakeholders to access the information of the companies easily, effectively yet worthwhile for them to make a strategic decision (Botosan, 2002).

The efficient use of CSR practices can gain public support and help compete in the market. Investing in better CSR practice companies is a way to lower the cost of financing and maintain a competitive advantage. Therefore, major shareholders prefer to entrust their investment to better CSR practice companies (Galema et al., 2008). A study done by Bassen et al. (2006) find out that better CSR practices decrease the general risk of a particular company, and it is seen by researchers as well as speculators which lead to a lesser cost of equity financing. CSR practice abroad has been advanced for a long time ago. Meanwhile, CSR disclosure in Malaysia is still at its growth stage as it has lesser restrictions of rules and regulations regarding CSR disclosure; besides, the companies have a straight perception that they will guarantee not receiving any opportunities or advantages from the stakeholders (Teoh & Thong, 1984). This situation shows that shareholders need more interest in investing in CSR activities.

Previous researchers commonly undergo the study of CSR affects company value. Researcher Starks (2009) find out that there is a vital mechanism whereby CSR disclosure influences the cost of equity through its influence on the risk of a particular company, as the shareholders view a higher social responsibility company enjoying a lower level of risk. On the other hand, decreasing the information asymmetry due to greater transparency of the information disclosed as well as lowering the cost of equity. Higher CSR practice companies have a greater proneness to disclose more information as it can lower the cost of equity financing while projecting a better reputation against shareholders and stakeholders. Starks (2009) found that there are high levels of risk carried by the company, which has lower CSR. The lower CSR with high risk may lead to an unclear or ambiguous future as higher risk means a large percentage chance of loss of capital or underperformance investments. The companies with the higher implementation of CSR disclosure could enjoy significantly lower risk perceived by shareholders and result in a lower cost of financing equity shares. In addition, lowering the information asymmetry could lead to a high CSR disclosure and assist in enjoying a lower cost of equity correspondingly to the relevant and suitable dimension. Based on a previous study done by Wang et al. (2013), CSR in Asian countries is still underdeveloped, and the link between CSR disclosure on the cost of equity is remain unclear yet ambiguous.

A higher CSR practice can build an opportunity to disclose more information, as the company acquired to project a good reputation and positive image to investors and other stakeholders as it shows they are socially responsible (Dhaliwal et al., 2009). Based on the empirical result of a study done by Dhaliwal et al. (2011) showed that lowering information asymmetry through voluntary CSR disclosure could lower the company cost of equity validated for high CSR practices' company. As the information disclosed reached investors and stakeholders, they tended to give more attention to the information related to higher CSR practices companies and directly ignore the unrelated information of low CSR practices companies to enjoy a lower cost of equity. In this situation, socially conscious investors prefer not to invest in a company with low CSR practices as it will bear a slightly higher cost of equity. Apart from that, better CSR practices could improve the company's relationship with investors, which can lead to better financial performance, enjoying a low cost of equity (Waddock & Graves, 1997)

METHODOLOGY

Sample Description

The sample chosen for this study is from top listed companies in Bursa Malaysia. There are 425 initial samples of this study tabulated in Table 1. However, some of these listed companies could not provide compete for data for this study. Therefore, according to the initial sample, only 304 listed companies from the property and construction, trading, services, and consumer industries have the essential and complete data needed to carry out this study. There are 121 listed companies has been taken out from the initial sample due to incomplete data requirement.

Keller and Warrack (2005) argued that the observations of at least 30 companies from the population represent the population. The financial data are obtained from the data stream, while the CSR data are obtained and extracted from the annual report of each selected sample companies. The financial data include earnings per share, total assets, current assets, total debt, total equity, and total sales; meanwhile, the data obtained from the annual report is the CSR word count in the environment, workplace, marketplace and community. Table 1 summarizes the sample size with available and complete data, and the table shows the excluded companies with incomplete and insufficient information.

Sample	Property and construction industry, trading and services industry and consumer industry
Initial sample	425
Minus: Companies that have incomplete data/ information	(121)
The sample that having available data/ information	304

Table 1: Summary of sample

Regression Model

Multiple regression analysis is chosen in order to measure the relationship between the cost of equity and corporate social responsibility (CSR) as well as the control variables (size of company, liquidity, leverage and growth). The models capture factors likely to affect the cost of equity. It is important to evaluate policy and test the economics theories' effect whenever the study depends on non-perimeter data because the multiple regression model can accommodate many explanatory variables that tend to be correlated.
Function form:

COE = ƒ(CSR, size of company, liquidity, leverage, growth)

Hence, the function can be estimated under the following model:

$COE_{i,t} = \beta 0_{i,t} + \beta 1\ CSR_{i,t} + \beta 2\ SIZE_{i,t} + \beta 3\ LIQUIDITY_{i,t} + \beta 4\ LEVERAGE_{i,t} + \beta 5\ GROWTH_{i,t} + \varepsilon_{i,t}$

Whereas,

COE	= cost of equity
α	= Constant
β	= Coefficient
CSR	= Corporate social responsibility
SIZE	= Size of company
LIQUIDITY	= Liquidity
LEVERAGE	= Leverage
GROWTH	= growth
ε	= standard normal, randomly assigned error term
i	= Companies
t	= Time

Measurement of Dependent Variable

Cost of equity
The cost of equity is measured in this study by using the price/ earnings to Growth (PEG) ratio method (Easton, 2004). The PEG ratio is a special case of Easton's (2004) model, which assumes no dividend payment is being calculated (El Ghoul et al., 2011). This model required share price to be expressed in one-year ahead and two-year ahead earnings per share as well as the market share price. This method derives the cost of equity from the following expression:

$$coc = \sqrt{\frac{eps_{i,t+2} - eps_{i,t+1}}{p_{0,i}}}$$

whereas,

$eps_{i,t+2}$	= Earnings per share for firm i for two-year ahead
$eps_{i,t+1}$	= Earnings per share for firm i for one-year ahead
$p_{0,i}$	= Stock market price of firm i’s shares
t	= Time

i = Company

Measurement of Independent Variable

Corporate Social Responsibility
CSR disclosure is being measured by constructing word count related to CSR. Prior studies also widely use content analysis to measure CSR disclosure (e.g., Amiruddin, 2007). Based on this review, the theme is included items such as community, workplace, marketplace and environment. The CSR word count is used to measure CSR disclosure by the company in the annual report. The word count represented by the theme (environment, workplace, marketplace and community) is extracted from the annual report for each company. The entire annual report is read in order to assess the applicability of the 4 themes involved. Therefore, the content analysis word count is used in this study in order to measure the CSR disclosure of the sample selected companies.

Measurement of Control Variables

Size of Company
The size of a company is being identified by the amount of assets, which sum of current assets and non-current assets, that owned by particular company. Size of the company is usually measured as the natural logarithm of the company's total assets. A large organization leads to carrying out more activities compared to a smaller organization and does affect society. The formula for identifying the size of a company is shown below;

$$\text{Size} = \log_{10}(Total\ asset)$$

Liquidity
The term liquidity describes the degree to which an asset can be quickly sold or bought. In this study, liquidity is used to test the impact on the company's equity cost. A current asset is being used in determining the liquidity of particular company. Thus, liquidity is usually measured as the natural logarithm of the company's current asset. The formula determining the liquidity of the companies is as follows;

$$\text{Liquidity} = \log_{10}(current\ asset)$$

Leverage
Wang et al. (2013) explained that companies with higher debt levels need to consider whether to invest in CSR and avoid investment which exceeds their risk tolerance. In addition, leverage is considered a control variable by researchers named Griffin et al. (1997) and Husted et al. (2007). Leverage can also be known as the amount of debt to finance the company's equity. In this study, leverage is usually computed as the ratio of total debt to the total equity or market value of the equity.

$$\text{Leverage} = \frac{total\ debt}{total\ equity}$$

Growth
This study uses growth as a proxy to measure company growth. Wang et al. (2013) used the growth in investigating the percentage change in the sale of the company, which can be used to

measure the company growth. A higher cost of equity will occupy higher opportunities for the investment to be rejected, which can impact the company's future growth (Embong et al., 2012).

$$\text{Growth} = \frac{total\ sale\ \mathrm{t} - total\ sale\ \mathrm{t}_{-1}}{total\ sale\ \mathrm{t}_{-1}}$$

FINDINGS AND ANALYSIS

Descriptive statistics

The descriptive statistics of CSR disclosure and the independent variable, and all control variables are shown in Table 2.

Variables	Minimum	Maximum	Mean	Std. Deviation
COE	0.000000	3.585686	0.2653	0.407396
CSR	0.000000	170.00	19.3715	21.55642
SIZE	4.345256	10.261118	6.7727	1.706197
LIQUIDITY	3.394101	9.971300	5.5414	1.009021
LEVERAGE	0.000000	498.5723	2.1567	24.83424
GROWTH	-1.77090	32.29234	-2932525	72011263

Table 2: Summary of Descriptive Statistics

The Easton model (2004) measures the cost of equity (COE). Table 2 reveals that the mean COE for the sample companies is 0.265310 and varies from 0 (minimum) to 3.585686 (maximum) from the year 2013 to 2014. There is a high gap between the minimum and maximum scores. Meanwhile, the standard deviation figure is 0.407396, which is large relative to its means. Corporate social responsibility (CSR) disclosure has a mean of 19.37148, ranging from 0 to 170, which means the sample companies have an average of 19.37148 items being disclosed. The standard deviation of the figure is 21.55642.

An analysis of Table 4.1 reveals the study's descriptive statistics for control variables. The control variables, such as the company's size and liquidity in Table 2, are transformed into a natural logarithm. Natural logarithm helps the variables to distribute the value to normal. Concerning size of the company (SIZE), measured by the logarithm of total assets of the selected companies' sample, the size had an average of 6.772681. This average indicates that most of the companies' samples were relatively large. The range of minimum and maximum is between 4.345256 and 10.26118 from 2013 to 2014. The standard deviation of the company size was 1.706197, implying that the size of companies listed in Bursa Malaysia varies.

The liquidity represented by LIQUIDITY, with a mean of 5.541439, is calculated by the companies' natural log of current assets. This shows that the companies have slightly high liquid assets. The range of liquidity with the lowest number of 4.345256, and the highest was 10.26118, while the standard deviation 1752.488.

Another control variable is LEVERAGE, with an average value of 2.156690. LEVERAGE is calculated by dividing the total liabilities by total equity. About LEVERAGE, the minimum value is 0, while the maximum value is 498.5723 for all sampled years. The gap between the minimum value and maximum value of this control variable is relatively high. The standard deviation is 24.83424, which seems relatively high among the result of descriptive statistics.

Lastly, GROWTH is the square root of the previous sale minus with current year's sale divided by the current year's sale. GROWTH has a minimum value of -1.7709% and a maximum value of 32.29234% with an average value of -2932525%. The standard deviation of GROWTH is the highest standard deviation among the result of descriptive statistics, 72011263.

Pearson's Correlation Coefficient

The Pearson correlation coefficient, r, shows the strength and direction of the association between two variables, describing the direction and degree to which one variable is linearly related to another (Bolboac et al., 2006). The highest value is +1.0, indicating a strong perfect positive correlation, whereas the lowest value is -1.0, indicating a weak perfect negative correlation. On the other hand, the value of +1.0 shows that the variables are perfectly linear related by an increasing relationship, a value of -1.0 shows that the variables are perfectly linear related by a decreasing relationship, and a value of 0 shows that the variables are not linear related by each other. Hence, a strong correlation is considered if the correlation coefficient is greater than 0.8 and a weak correlation if the correlation coefficient is less than 0.5.

Table 3 shows the summarization of the correlation result between the corporate social responsibilities (CSR) disclosure, size (SIZE), liquidity (LIQUIDITY), leverage (LEVERAGE), Growth (GROWTH) and cost of equity (COE). It demonstrates that CSR, SIZE, LIQUIDITY, LEVERAGE, and GROWTH are related to financial performance as measured by the cost of equity (COE). COE represents that the cost of equity significantly correlates with corporate social responsibility disclosure at a 1% significance level, as shown in Table 3. It also showed a negative relationship, meaning the cost of equity is negatively significantly correlated with corporate social responsibility. This indicates that the CSR disclosure will contribute to the lower cost of equity among selected sample companies listed in Bursa Malaysia.

The table also showed signs of significant positive and negative correlations among the dependent and control variables. COE shows a positive but insignificant relationship between the company sizes (SIZE). Liquidity (LIQUIDITY) has a negative significance at 1% to COE, while leverage (LEVERAGE) also shows a significant negative result at a 1% significance level. Besides, Growth (GROWTH) shows a significant positive relationship with COE at a 5% significance level.

Corporate social responsibility (CSR) disclosure positively correlated and was significant at 1% with SIZE and LIQUIDITY. Meanwhile, CSR positively impacts LEVERAGE but is not significant; meanwhile, CSR has a significant positive relationship at 10%. Other than that, SIZE has a positive relationship to LIQUIDITY and GROWTH and is very significant at a 1% level, while LEVERAGE is negatively related to SIZE with a significant level of 5%. LIQUIDITY is positively related to LEVERAGE with a significant level of 1%, while GROWTH has a positive relationship and is not significant with LIQUIDITY. Lastly, LEVERAGE and GROWTH show a negative relationship, significant at a 10% significant level.

Variable		COE	CSR	SIZE	LIQUIDITY	LEVERAGE	GROWTH
COE	Pearson Correlation	1					
	Sig. (1-tailed)						
CSR	Pearson Correlation	-0.1644	1				
	Sig. (1-tailed)	0.0041***					
SIZE	Pearson Correlation	0.0169	0.3049	1			
	Sig. (1-tailed)	0.7687	0.0000***				
LIQUIDITY	Pearson Correlation	-0.2828	0.1891***	0.5600	1		
	Sig. (1-tailed)	0.0000***	0.001	0.0000***			
LEVERAGE	Pearson Correlation	-0.1847	0.0094	-0.1243**	0.2076	1	
	Sig. (1-tailed)	0.0012***	0.870	0.031	0.0003***		
GROWTH	Pearson Correlation	0.1447	0.1002	0.2990	0.0896	-0.1125	1
	Sig. (1-tailed)	0.0115**	0.0809*	0.0000***	0.1192	0.0500**	

***. Correlation is significant at the 0.01 level (1-tailed), **. Correlation is significant at the 0.05 level (1-tailed) and*. Correlation is significant at the 0.1 level (1-tailed)

Table 3: Correlation Coefficient between Variables

Regression Analysis

Table 4 indicates that the influences of corporate social responsibility (CSR) disclosure, together with the control variables, include the size of the company (SIZE), liquidity (LIQUIDITY), leverage (LEVERAGE) and Growth (GROWTH) which have a value of R-Squared of 0.169808. Fros (2013) stated that R-Squared is defined as a goodness of fit measure for linear regression models; this statistic indicates the percentage of the variance in the dependent variable, which the independent variables explain collectively. Besides, R-squared measures how strong the relationship between the research model and the dependent variable is on a convenient 0% – 100% scale. In this study, R-Squared showed that 16.98% of the model could explain any variation in the response variable around its mean. In other words, this indicates that the overall test can be explained by CSR and the other variables that it has a 16.98% effect on the company's cost of equity (COE). The high value of the R-square indicates that the model fits well with the data. The adjusted R-square value is 0.155878, indicating that the regression is slightly good. However, small R-squared values are not always a problem, and high R-squared values are not necessarily good (Fros, 2013). This is because the regression model with a high R-squared value can have many problems.

Variables	Model			
	Coefficient	Standard Error	t- statistic	Probability
C	0.968394	0.534419	1.812051	*0.0710
CSR	-0.155550	0.048713	-3.193180	***0.0016
SIZE	0.817314	0.239908	3.406780	***0.0007
LIQUIDITY	-2.094629	0.370597	-5.652038	***0.0000
LEVERAGE	-0.037956	0.035862	-1.058384	0.2907
GROWTH	0.069573	0.032984	2.109309	**0.0358
R-Squared	0.169808			
Adjusted R-Squared	0.155878			
F-Statistic	12.19059			
Prob(F-Statistic)	0.000000			

***. Correlation is significant at the 0.01 level (1-tailed), **. Correlation is significant at the 0.05 level (1-tailed) and*. Correlation is significant at the 0.1 level (1-tailed)

Table 4: Multiple Regression Analysis

COE i,t = 0.968394 - 0.155550 CSR i,t + 0.817314 SIZE i,t - 2.094629 LIQUIDITY i,t - 0.037956 LEVERAGE i,t + 0.069573 GROWTH i,t + εi,t

Table 4 shows a significant negative relationship between CSR disclosure and the COE with a t-statistic value of -3.193180 and a significant level of 0.0710. Therefore, these results are consistent with the prior study done by Dhaliwal (2011), El Ghoul (2011), Embong (2012), Wang (2013), Halvarsson J. (2015), Razali (2017) and Suto (2017) that found disclosure reduce cost equity. Hence, the hypothesis is supported. It showed that greater CSR execution reduces the general risk of a company being contrarily seen by investors and speculators. High commitment to corporate governance and precise stringent disclosure standards, which impact lowering agency and information asymmetry problems, prompt less costly equity financing. Hence, the cost of equity is decreasing. Many companies disclose information about goods, clients, workers, and civic involvement. CSR disclosures consist of little measurable data somehow; it helps lower the cost of equity. So, the listed companies in Bursa Malaysia with a higher corporate social disclosure score could enjoy a lower companies' cost of equity.

Second, there is a negative relationship between the SIZE and the COE with a t-statistic value of 3.406780 and a significant level of 0.0016, where the 0.0016 is lesser than the rejection rule < p- value 0.01. However, it has a positive relationship with COE, against the hypothesis. Hence, the hypothesis is not supported. This result is not consistent with the prior research done by Dhaliwal (2011), El Ghoul et al. (2011), and Wang (2013). They expect a negative relationship between the SIZE and the COE. This showed that the size of the company could be more effective in reducing the cost of equity. However, the relationship shown in this study is consistent with the study by Beatriz (2016) and Razali (2017).

Third, there is a negative relationship between LIQUIDITY and COE. Table 4 shows that LIQUIDITY is significantly negatively related to the COE at a 99.99% significant level. It has a t-statistic value of -5.652038 and a significant level of 0.0000. The decision-making made by investors for investment is influenced by liquidity. The result from this study is consistent with the studies done by Butler et al. (2005) and Razali (2017). Their research found a negative relationship between the cost of equity and liquidity. Therefore, liquidity is effective in lowering the cost of equity.

The next variable is LEVERAGE and COE. In the result shown in Table 4, leverage (LEVERAGE) showed an insignificant negative relationship with the COE. This is different from the studies done by researchers Gode and Moharram (2003) and Dhaliwal et al. (2009), and Suto (2017), where they found that leverage loads a positive as well as significant across all models based on the empirical result. However, Wang et al. (2013) use the ratio of total debt to total equity to evaluate the link between leverage and the cost of equity. Shareholders usually will see the amount of leverage the company have before financing their share in the company.

Lastly, a positive relationship exists between GROWTH and COE. The table showed that growth has a significant positive relationship with the cost of equity at a t-statistic value of 2.109309 significant at a 5% significant level. This hypothesis is accepted consistent with the study done by Dhaliwal (2011), Embong (2012), Wang et al. (2013) and Suto (2017). He stated that the rapid growth of a particular firm could be said to have a higher sales growth and usually unable to maintain a stable cost of equity due to the market share widening nowadays, therefore, having a positive relationship with the cost of equity. This means that GROWTH significantly affects the lower COE when the sales increase at a 5% significance level.

CONCLUSION AND IMPLICATION OF THE STUDY

This study examined the relationship between the cost of equity and the CSR disclosure extracted from the annual reports of the sample companies. This research is conducted by using a sample of 304 companies listed in Bursa Malaysia with data over two years between 2013 and 2014. Based on this, the study has used multiple regression analysis to determine the association between the cost of equity and CSR disclosure and whether it has a positive or negative relationship between the variables. A total of 304 companies in the consumer product, trading and service, construction and property sector are analyzed in this paper. The companies are chosen with the condition of the availability of relevant data. Therefore, the sample was reduced to 304, given that the initial sample of this study was 425 sample companies.

The main objective of this study is to investigate the relationship between the independent and dependent variables in terms of cost of equity and CSR disclosure. Besides, this study summarized how corporate social responsibility (CSR) disclosure affects the company's cost of equity. The independent variables involved in this study are CSR disclosure, company size, liquidity, leverage and growth. After running, analyzing and interpreting the data in the previous chapter, the results provide us with a deeper understanding of determining the factors that affect the company's cost of equity. Based on the tested sample companies, there are negative relationships between CSR disclosure and the cost of equity. The study gives us insight and further examination, which convey extra information and contribution. Hence, the research will enhance the degree of understanding regarding CSR disclosure and the cost of equity.

In this study, CSR disclosure is tested to have a significant negative relationship with the company's cost of equity. Hence, this result revealed that the cost of equity is relatively lower when the CSR disclosure is higher. This great CSR implementation could reduce the general risk of a company being rebelliously seen by investors. Furthermore, the investors benefit from the reduced information asymmetry due to higher disclosure transparency. Hence, it prompts less costly equity financing and a lower cost of equity. The controlled variables in this study indicated that attributes that significantly influence the cost of equity included the company's size, liquidity, leverage and growth.

Moreover, this study also investigated how the control variables, for instance, the company's size, liquidity, leverage and growth, could affect the company's cost of equity. There is a negative relationship between the size of the company and the company's cost of equity. Liquidity also has a negative relationship with the cost of equity. Lastly, growth showed a positive relationship with the cost of equity.

Several important implications were discovered from this study for different parties, namely investors, the public, managers, academicians, regulators, future researchers, and the government. First, this study will make a greater contribution to investors. Investors are looking for a core holding that targets stocks complete with socially responsible characteristics. This study can act as guidance for investors to make wise investment decisions. By carrying out this study, investors can have a clear idea of how CSR disclosure reduces information asymmetry problems, which could lower the systematic risk to help the company own a better stock market performance and lower the company's cost of equity.

Besides, this study also implies that it can help managers gain more competitive advantage from non-financial activities. Managers can also easily get insight from this study regarding enhancing the incentive for CSR disclosure in the annual report. This research also assists managers in developing more effective strategies in order to prepare organizations for a rapidly changing disclosure of CSR information in the annual report. They can evaluate the company's CSR efforts using the items counted, including community, environment, workplace and marketplace. By doing so, the company can reduce information asymmetry and enjoy a lower cost of equity.

Apart from that, future studies that academicians will do also need this study as their further reference and guideline for future research. Academicians can be exposed to new opportunities and explore more new areas for their research extension. Most researchers can only sometimes predict or anticipate what the result of their research will be. After this study, there will be more new channels of research information based on this study.

Lastly, this research can provide useful references to the regulator on behalf of the government. Regulators such as Bursa Malaysia must enforce the rules and regulations of disclosure, especially those factors that are found to affect the company's cost of equity significantly. Furthermore, this study also discovered better implications to assist governments and policymakers in bringing better outcomes and policies for shareholders of public listed companies. It also recommends how to create a closer alliance under agency theory between management and shareholders and to align the interests of both management and shareholders. In addition, on behalf of the regulatory body and government, the Bursa Malaysia and the Security Commission (SC) may instruct and encourage all listed companies to fully disclose their information through annual reports. They also tend to regulate requirement information to be disclosed because of the rising CSR practice in Malaysia.

REFERENCES

Abdulrazak, S. R., & Ahmad, F. S. (2014). Sustainable development: A Malaysian perspective. *Procedia-Social and Behavioral Sciences*, *164*, 237-241.

Ahmad, N. N. N., Sulaiman, M., & Siswantoro, D. (2003). Corporate social responsibility disclosure in Malaysia: An analysis of annual reports of KLSE listed companies. *International Journal of Economics, Management and Accounting*, *11*(1), 55-60.

Amran, A., Zain, M. M., Sulaiman, M., Sarker, T., & Ooi, S. K. (2013). Empowering society for better corporate social responsibility (CSR): The case of Malaysia. *Kajian Malaysia*, *31*(1), 57-78.

Barry, C. B., & Brown, S. J. (1985). Differential information and security market equilibrium. *Journal of Financial and Quantitative Analysis, 20*(4), 407–422.

Barry, C. B., & Brown, S. J. (1986). Limited information as a source of risk. *The Journal of Portfolio Management*, 12, 66–72.

Bassen, A., Meyer, K., & Schlange, J. (2006). The influence of corporate responsibility on the cost of capital.

Bolboaca, S. D., & Jäntschi, L. (2006). Pearson versus Spearman, Kendall's tau correlation analysis on structure-activity relationships of biologic active compounds. *Leonardo Journal of Sciences*, *5*(9), 179-200.

Botosan, C. A., & Plumlee, M. A. (2002). A re-examination of disclosure level and the expected cost of equity. *Journal of Accounting Research*, *40*(1), 21-40.

Butler, A. W., Grullon, G., & Weston, J. P. (2005). Stock market liquidity and the cost of issuing equity. *Journal of Financial and Quantitative Analysis*, *40*(2), 331-348.

Chapple, W., & Moon, J. (2005). Corporate social responsibility (CSR) in Asia. A seven country study of CSR web site reporting. *Business & society*, *44*(4), 415-441.

Clarkson, M. E. (1995). A stakeholder framework for analyzing and evaluating corporate social performance. Academy of management review, 20(1), 92–117.

Easton, P. D. (2004). PE Ratios, PEG Ratios, and Estimating the Implied Expected Rate of Return on Equity. *The Accounting Review*, *79*(1), 73–95.

El Ghoul, S., Guedhami, O., Kwok, C. C., & Mishra, D. R. (2011). Does corporate social responsibility affect the cost of capital? *Journal of Banking & Finance*, *35*(9), 2388–2406.

El Ghoul, S., Guedhami, O., Ni, Y., Pittman, J., & Saadi, S. (2013). Does information asymmetry matter to equity pricing? Evidence from firms' geographic location. *Contemporary Accounting Research*, *30*(1), 140–181.

Elton, E. J. (1999). Presidential address: expected return, realized return, and asset pricing tests. *The Journal of Finance*, *54*(4), 1199–1220.

Embong, Z., Mohd-Saleh, N., & Sabri Hassan, M. (2012). Firm size, disclosure and cost of equity. *Asian Review of Accounting*, *20*(2), 119-139.

Frost J. (2013). Regression Analysis: How Do I Interpret R-squared and Assess the Goodnessof-Fit? Retrieved on 23 May 2017, The Minitab Blog.

Galema, R., Plantinga, A., & Scholtens, B. (2008). The stocks at stake: Return and risk in socially responsible investment. *Journal of Banking & Finance*, *32*(12), 2646-2654.

Gray, R., Kouhy, R., & Lavers, S. (1995). Corporate social and environmental reporting: a review of the literature and a longitudinal study of UK disclosure. *Accounting, Auditing & Accountability Journal*, *8*(2), 47–77.

Gray, R., Owen, D., & Adams, C. (1996). *Accounting & accountability: changes and challenges in corporate social and environmental reporting*. Prentice Hall.

Griffin, J. J., & Mahon, J. F. (1997). The corporate social performance and corporate financial performance debate: Twenty-five years of incomparable research. *Business & Society*, *36*(1), 5–31.

Halvarsson J., & Zhan A. (2015). Corporate Social Responsibility and the Cost of Capital Is CSR priced in the Swedish capital market? *Accounting & Financial Management, Spring.*

Hamid, F. Z. A. (2004). Corporate social disclosure by banks and finance companies: Malaysian evidence. *Corporate Ownership and Control*, *1*(4), 118-130.

Hausman, J. (1978). Specification Tests in Econometrics. *Econometrica 46*, 1251–1272.

Healy, P. M., & Palepu, K. G. (1993). The effect of firms' financial disclosure strategies on stock prices. *Accounting Horizons, 7*(1), 1.

http://blog.minitab.com/blog/adventures-in-statistics-2/regression-analysis-how-do-iinterpret-r-squared-and-assess-the-goodness-of-fit.

Ismail, M., Alias, S. N., & Rasdi, R. M. (2015). Community as a stakeholder of the corporate social responsibility programme in Malaysia: Outcomes in community development. Social Responsibility Journal, 11(1), 109-130.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics*, *3*(4), 305-360.

Keller, G., &Warrack, B. (Eds.). (2005). Statistics for management and economics (5th Ed.):

Laplume, A. O., Sonpar, K., & Litz, R. A. (2008). Stakeholder theory: Reviewing a theory that moves us. *Journal of management*, *34*(6), 1152-1189.

Lombardo, D., & Pagano, M. (1999). Law and equity markets: A simple model. Available at SSRN 209312.

Mamun, M. A., Shaikh, J. M., & Easmin, R. (2017). Corporate social responsibility disclosure in Malaysian business. *Academy of Strategic Management Journal*, *16*(2), 29-47.

Merton, R. C. (1987). A simple model of capital market equilibrium with incomplete information. *Journal of Finance, 42*(3), 483–510.

Modigliani, F., & Miller, M. H. (1958). The cost of capital, corporation finance and the theory of investment. *The American economic review*, *48*(3), 261-297.

Mohd Ghazali, N. A. (2007). Ownership structure and corporate social responsibility disclosure: some Malaysian evidence. *Corporate Governance: The international journal of business in society*, *7*(3), 251-266.

Myers, S. C., & Majluf, N. S. (1984). Corporate financing and investment decisions when firms have information that investors do not have. *Journal of financial economics. 13*(2), 187–221.

Pacific Grove.

Pedersen, E.R. (2006). Making corporate social responsibility (CSR) operable: How companies translate stakeholder dialogue into practice. *Business and Society Review, 111*(2), 137-163.

Prieto- Carrón, M., Lund -Thomsen, P. Chan, A., Muro, A. N. A., & Bhushan, C. (2006). Critical perspectives on CSR and development: what we know, what we don't know, and what we need to know. *International Affairs*, *82*(5), 977-987.

Razali, M. W. M., Fui, W. Y., Shaharuddin, S., Tak, A. H., & Hajazi, M. U. A. Corporate Social Responsibility Disclosure and Cost Of Equity In Industrial Product Industry.

Richardson, S., I. Tuna, and P. Wysocki, (2010). Accounting anomalies and fundamental analysis: A review of recent research advances, Journal of Accounting and Economics 50, 410–454.

Schadewitz, H. and Niskala, M. (2010). Communication via Responsibility Reporting and Its Effect on Firm Value in Finland. Corporate Social Responsibility and Environmental Management, 17, 96-106.

Starks, L. T., (2009). Corporate governance and corporate social responsibility: What do investors care about? What Should Investors Care about? Study of CSR website reporting. *Business & Society*, *44*(4), 415-441.

Suchman, M. C. (1995). "Managing legitimacy: Strategic and institutional approaches", *Academy of Management Journal*, *20* (3), 571–610.

Suto M., Takehara H. (2017). CSR and cost of capital: evidence from Japan, Social Responsibility Journal, 13(4), 798-816.

Teoh, H. Y., & Thong, G. (1984). Another look at corporate social responsibility and reporting: an empirical study in a developing country. *Accounting, Organizations and Society*, *9*(2), 189-206.

Waddock, S. A., & Graves, S. B. (1997). Quality of management and quality of stakeholder relations: Are they synonymous? *Business & Society*, *36*(3), 250–279.

Wang, M., Feng, Z. Y., & Huang, H. W. (2013). *Corporate Social Responsibility and Cost of Equity: A Global Perspective*. Working Paper, National Cheng Kung University, Taiwan.

Yam, S. (2012, January). Corporate social responsibility and the Malaysian property industry. In *18th Annual PRRES Conference, Adelaide, Australia* (15–18).