Chapter 10
Malaysia: Value Relevance of Accounting Numbers

Mazurina Mohd Ali, Muhd Kamil Ibrahim, Rashidah Mohammad, Mustaffa M. Zain, and Mohd Rashidee Alwi

Abstract The increasing demands placed on businesses to fulfill its social responsibilities have heightened interests in corporate donations. Corporate donations exist when a corporation donates a portion of its resources to a societal cause. In addition, corporations have developed a wide array of charitable vehicles, namely, foundations, non-profit and association umbrella groups, as well as community outreach programs. Studies on this particular topic have been carried out in other markets such as the United States and the United Kingdom as well as in Europe. Being the first research in Malaysia, the goals of this study were (1) to examine whether stakeholders especially investors consider corporate donations when they determine the value of the firm, (2) to test empirically the determinants (i.e., leverage, firm’s size, and profitability) of corporate donations made by 774 Malaysian Public Listed Companies of the Main Board. Three of the firms’ specific characteristics were derived from agency and stakeholder theories. Firstly, multiple regression analysis was conducted in order to examine the perception of the stakeholders, especially investors, on the corporate donations. Secondly, a logistic regression analysis was conducted in order to examine the determinants of corporate donations made by the Public Listed Companies in Malaysian market. The results revealed that there is a positive relationship between corporate donations and the market value of equity. This study also revealed that there is no significant relationship between the leverage and the corporate donations. This result contradicts the findings of some other researches. However, the study provides evidence that the company size and profitability are important determinants of companies that are more likely to contribute to the society.

10.1 Introduction

Currently, corporate donations to charitable and community service organizations have recorded a remarkable increase. This has been proven by a number of studies that have been carried out in Western countries over the last two decades.
(Dabson 1991; Logan 1993; Simon 1995; Pharoah 1996; Willsher 1996; Bennett 1997), even though till now the reasons underlying this event have not been thoroughly assessed. The studies on this topic have mainly been made in the United Kingdom, the United States, Europe, China, Korea, and Hong Kong, but as far as we are aware, none has been carried out in Malaysia.

Bae and Cameron (2006) reported that corporations have made an intensive attempt to donate money to valuable social causes since the late 1990s. Importantly, along with the increasing media coverage on issues of corporate donations, companies themselves are also taking direct and visible steps to communicate their corporate donations initiatives to various stakeholders. The reason for such socially responsible activity is generally connected with rising positive community perceptions of contributor corporations. Conversely, some researchers have questioned whether donations are always directly linked to better business. This is because the public frequently perceives donations as self-serving activities, and such cynicism by the public can weaken the future reputation of the corporations.

Also, depending on previous corporate reputation, the public may observe corporate donation messages in a different way. If a company has a good prior reputation, its donation messages are interpreted as an evenly useful activity rather than being perceived as a self-serving action. The latter will have an effect on public attitudes toward the company.

Bae and Cameron (2006) further supported this view when they expressed that the market showed a positive attitude toward the company when they inferred the company had a philanthropic purpose for charitable giving. On the other hand, they found that the market showed a negative attitude toward the company when they inferred the company had a self-serving intention for charitable giving. Adams and Hardwick (1998), on the other hand, examined the characteristics of firms that are associated with corporate donations in the UK. They have established a model that comprises the firm determinants including leverage, company size, and profitability. Ever since, the determinants of corporate donations to social causes have become an interesting and researchable topic area.

As mentioned earlier, studies on this particular topic have been done in overseas markets such as the US and the UK as well as in Europe. There is a likely need to have similar research carried out on Malaysian markets. It is worth noting that this would be the first research to examine whether the market takes corporate donations into consideration when they determine the value of a company. Further, it is also to examine whether the factors attributed affect the amount of corporate donations made by the Public Listed Companies of the Main Board of Bursa Malaysia. If corporate donations could be analyzed, this could contribute to the accounting literature and specifically to the behavioral aspects of the firms. Additionally, it will be interesting to study whether the situations exist for firms operating in developing countries like Malaysia similar to those in developed countries.

This study attempts to verify whether investors perceive and respond toward corporate donations and take it into considerations when they determine the value of a Malaysian company. This study also attempts to verify the factors that can