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A CASE STUDY ON CORPORATE SOCIAL RESPONSIBILITY ON
TAX EXEMPTION

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Abstract

This preliminary research is a study on the corporate social responsibility of Malaysian corporate company's selection in channelling their fund to a needy person or organization. Evaluation has been done to a Malaysian east coast regent company. Nowadays, company's awareness level on corporate social responsibility (CSR) is high. As such, the effort in nourishing the awareness will be worthless should the company channels it to the wrong party. Furthermore, the said company might be refused for tax exemption entitlement. Therefore, there are specific criteria to be fulfilled in selecting the ideal personnel or organization. Besides, it is essential for the company to have a crystal-clear view on CSR type that have been designated for them; to qualify them for tax exemption. As such, qualitative method is used in determining which factors of a person or an organization criterion is/are most contributed to channel funds. Researcher will analyse gathered data from participants and compared it to the existing method used in Malaysia. The outcome might be useful corporate companies; as which it can be used as guidelines in measuring their current performance of collecting tax; resulting in correct allocation of fund and contribution to the righteous parties.

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Keywords: Corporate social responsibility, tax exemption, tax awareness.



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1. Introduction

Corporate social responsibility is one of the company's activity to contribute good returns to the society. To encourage this activity, companies are benefited in tax exemption term from the Inland Revenue Board of Malaysia. Khan (2010) mentioned that, in ensuring the long-term continued existence of the company, the need to undertake social responsibilities and to report such activities at a regular interval have been recognised as essential device for organizations towards. Pisani et al (2017) corporate social responsibility (CSR) reporting has been receiving a considerable attention to researchers and practitioners for more than two decades.

Companies Act 1965 protects the rights and interests of shareholders and investors. Section 169(1), Section 174(1) and Section 174(2) of the Act denotes that all companies in Malaysia, regardless of their size, private or public, need to have their annual accounts audited by an independent auditor. Further they need to pay tax. It is supported by Inland Revenue Board of Malaysia rules that, all person staying in Malaysia for more than 182 days are considered as residents; under Malaysian tax law, regardless of nationality.

Nasir et al (2015) had found that, CSR has become a part of the company entity. The company is expected to run more CSR program in society and not only focusing on financial performance. The performance of CSR programme in Malaysia moved to a higher level over time; and the government and multiple influence parties (Bursa Malaysia and Companies Commission of Malaysia) are actively encouraging and raising awareness to corporates for them to include CSR as a part of their business agenda (Senawi et al., 2016). This is consistent with the previous study by Waworuntu et al. (2014) which had found an increment of CSR disclosure by the company in ASEAN from 2009 to 2011.

2. Problem Statement

According to Datuk Seri Peter Chin Fah Kui-former Energy, Green Technology and Water Minister; most of the company is aware on the importance of CSR; but less than 10 percent of Malaysian companies adopt CSR but unfortunately do not apply CSR as a part of the company agenda. This statement also argued by study of Lu and Castka (2009) and Abdulrazak and Ahmad (2014) that most of the companies in Malaysia is aware the importance of CSR but their conclusion in the study is, the manager do not comprehend the importance of CSR. While study by Rashid and Ibrahim (2002) had stated that, the study on corporate social responsibility (CSR) in Malaysia is less and the last study on this area is on 1998. A study on corporate company by Ghazali (2007) had found that, there is considerable variability amount from among large company traded in Bursa Malaysia in social activity stated in their annual report. This shows companies in Malaysia have limited exposure on how corporate social responsibility will able to help them in minimizing the company income tax.

Study conducted by Zainal and Zainuddin (2013) suggested that the further study of appropriate mechanism, regulation and guidelines for company to become responsible to community.

3. Research Questions

There are two (2) research questions has been derived for this study. They are as follows:

RQ 1 – Which type of CSR that eligible for tax exemption do companies most preferred in Malaysia?

RQ 2– How do companies determine the criteria of CSR receivers?

4. Purpose of the Study

Upon completing this study, the researcher will gain better understanding of tax exemption in term of CSR among corporate sector. In addition, it helps the researcher to determine factors that enable any individual or organizational to be entitled for the funds. Furthermore, this study helps to disseminate information to needy parties in regards of the funds existence. To potential fund receiver, this study will be beneficial for them in self-scanning on fund receiver criteria fulfilment and recognize appropriate CSR activity that is reasonable to them.

Next section will explain the methodology for this research. The subsequent section will be analysis of the findings, and lastly the concluding remarks and suggestion for future.

5. Research Methods

5.1. Research Design / Approach

To accomplish this research in improving CSR effectiveness in channelling the fund to needy people, qualitative study method has been chosen. As mentioned at the beginning of this paper, objective of this study is to evaluate the entitlement criteria for an individual or organization to receive channelled funds. This study utilized qualitative data, where researcher conducted observations on corporate companies that registered with Inland Revenue Board of Malaysia (IRBM). Later on, a semi-structured interview session will be conducted with selected participants based on their perspective and practices.

5.2. Sampling

The purposeful sampling was conducted in selecting the best company to participate in this research. Using said method, probability of companies to be selected among the population is even. Any selected company will represent the population accordingly. Additionally, the researcher will highlight the inclusionary and exclusionary criteria for the company. The reason this sampling was used by the researcher is; it was an impartial way in selecting sample from the selected targeted population. The theoretical sample was the corporate company that gave out Corporate Social Responsibility (CSR) from IRBM. Meanwhile the sample frame was the company in the east coast region peninsular Malaysia. The target population for this study was the owner and the manager from selected corporate company registered with Inland Revenue Board of Malaysia

5.3. Measures

Triangulation is a mixing of data or methods so that diverse viewpoint upon a topic (Werner, 2009). According to Creswell (2014) triangulation is the process of corroborating evidence from different individuals (the manager of the selected corporate company, the executive and the receiver), types of data

(interview and existing data) or methods of collection data (interview and documents) in description and themes in qualitative research.

Trustworthiness is needed in qualitative as it provides accuracy to the study. There are four criteria must be considered by the researcher which are credibility, transferability, conformability and authenticity. Credibility is where; the researcher has achieved saturation from the data collection. Transferability is when researcher ought to have sufficient supported explanation on data collection method, setting of fieldwork and other relevant information so that it can decide for herself if another study were to be conducted in a similar situation; whether outcome would be the same. Confirmability when researcher must prove the data interpretation is original and not based on imagination. Lastly authenticity is where, researcher to have fair, balance and unbiased view.

5.4. Procedures

First, researcher collected data from the identified participants: the owner and the manager of selected corporate company. The sampling was the corporate company. Second was to gain the permission of selected participants. Third was identifying types of data that will be used to address the research questions. One to one interview session will be conducted with the participants. Documents needed are the data of fund receivers. Fourth was data recording; where it is important to audiotape the interviews. The researchers also must take note during the interview and prepared questions to be asked. Lastly where an administer was needed to do data collection with special attention as potential ethical issue that may arise.

5.5. Confidentiality of Data

Researchers have to determine the accuracy of or credibility of the findings through strategies such as member checking and triangulation. Using triangulation, inquirer examines each information source and finds evidence to support a theme (Kamarudin, 2017). This assures the study is accurate because researcher obtains information from a variety sources, individuals or processes. This will encourage accuracy and credibility.

First, confidentiality has to be addressed during the time of data collection. The researcher convinced the participants (corporate company) by showing them the term and condition of the questionnaire where their names and details will be kept confidential. Their details and answers were only for study purpose and will not be revealed to anyone. Confidentiality was also assured during data cleaning, where researcher will remove any identifier to create a “clean” dataset. It means; the data do not contain any information related to participants such as gender, name, religion, address etc. These information can be saved elsewhere. For example, participant can be known as an anonymous, or an address can be deleted when it is no longer used. Finally, all data kept in a safe place such as locker which is not easily accessible to anyone.

5.6. Proposed Analysis

For this qualitative study, the proposed analysis after data gathering date is to code the data. Foremost step is to organize data in accordance to cases. This step is where the researcher start to analyse

data sense from interviews, observations, and discussions; before break it into parts. Second step is to start coding the gathered data. It is where, researcher segmenting and labelling text to form description and broad theme in the data. Initial step is to open coding which means to seek for distinct concept and categories in the data; it will be then define the basic unit of the analysis. After that, cluster and grouping of codes. After step 1 has been defined, researcher needs to confirm the concept and categories accurately in presenting interview response, and also to explore the concept and categories relation. Last step was transferring final concept and categories into a data table. Researcher need to list the major categories and explain in detail by the side on the table.

6. Findings

This section is an explanation and interpretation of collected data and findings discussion. The analysis is relevant to answer the research questions. From the interview session, respondent has answered several questions to strengthen and support the analysis.

6.1. Analysis

This corporate company was established on 1998, the first store located at Jalan Tuanku Abdul Rahman, heart of Kuala Lumpur City with 50 staff. They sold scarf and other women fashion accessories with Swarovski element. On year 2004 they became one of Swarovski co-branding partners. This collaboration empowering their brand in Malaysia and Southeast Asia; became the biggest supplier of Swarovski element in this Southeast Asia region. This company aims to at least do CSR program once a year. Company's owner will choose old folk centre or orphanage in executing their program. This year they had selected one old folk centre for their obligation in CSR program. The selection of potential fund receiver was done based on information from friends, customers and relatives of the company. Hence, his staff will do some research and investigation based on several qualified centers. The criterion is in identifying the most needed; which had the least funds either from government or private body.

According to owner, the reason the particular centre being selected was; and this reason had constantly became a reminder to not only him, but also to his families, subordinates, that one day we will become old and stories shared by the old folk center's members can be our inspiration, taught us to become a better person. He added that CSR program was one of his responsibilities towards the Creator and to maintain a good relationship with those in need.

From this case, the researcher concluded that, CSR that eligible for tax exemption which was most preferred by companies was funds allocation and meaningful activities execution at selected centre. The CSR receiver in Malaysia who are lack in funding is identified as the centre that has many members. Company followed some rules and protocols in determining the criteria based on their own investigation with their head centre and self-observation on particular selected centre or individual. Subsequently they then selected the most lack fund center.

7. Conclusion

As a conclusion, this study is exploring the Corporate Social Responsibility (CSR) performed by corporate company on their method in channelling funds to needy person. Based on interview session with company's owner and the manager, it showed this company has awareness on their responsibility towards the community, which was shown by doing CSR program at least once a year. Furthermore, the owner also comprehends that donation channelled to selected institution in their CSR program will be given 10 percent tax exemption from government for the aggregate income of the previous year. This fact supported study of Lanis and Richardson (2013) that positive relationship between the tax aggressiveness and CSR disclosure by the company. Analysis shows that, company gave funds and favour the elderly residents in their activities during the program. They had followed certain methods in determining the receiver criteria. Evaluation on few potential receivers was done and later, the selected one will receive fund and visit from the company. The rest of the potential receivers will also receive some amount of fund contribution based on discretion of the owner.

Suggestions to be listed for this study are; first, continuous support from all parties including government especially IRBM in promoting CSR program as a regulation of the corporate company can increase awareness and "value" of the company in the community. This is argued by the research of Sadou et al (2017) in measuring the quality of the disclosure of CSR in slightly increase between 2011 to 2014, it shows company needs to be persuaded to do CSR program.

Second, government as the main party and act as the tax collector should increase the maximum allowable tax exemption for corporate company in encouraging companies to implement CSR programme. Third, the scope of CSR programme should be expended by the company to wider sectors as now it covers on education, donation, green technology, child development program and HIV awareness UNCEF MALAYSIA (2013) in order to ensure the fund is spread to variety of people needed. This is argued by Azlan et al (2013) that great understanding of community need's will benefit the firm in long run.

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